

**Chroma Therapeutics Limited**  
**Report and Consolidated financial statements**

**Year ended 31 December 2014**



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## Company information

Company number	4066289 (England & Wales)
Directors	P V Allen (Chairman) R E Bungay (Chief Executive Officer) T J Haines Dr S J Powell Dr T Sykes
Secretary	R E Bungay
Registered office	93 Innovation Drive Milton Park Abingdon OX14 4RZ
Auditors	Ernst & Young LLP Apex Plaza Reading RG1 1YE

## Contents

Strategic report	Pages 3-4
Directors' report	Pages 5-7
Auditors' report	Page 8
Consolidated statement of profit or loss and other comprehensive income	Page 9
Consolidated balance sheet	Page 10
Company balance sheet	Page 11
Consolidated and company statements of changes in equity	Page 12
Consolidated and company cash flow statements	Page 13
Notes to the consolidated financial statements	Pages 14-36

## Strategic report

for the year ended 31 December 2014

The directors present their strategic report and consolidated financial statements for Chroma Therapeutics Ltd ('the Company'; registered number 04066289) and its subsidiary (together 'the Group') for the year ended 31 December 2014.

### Principal activity

The principal activity of the Group during 2014 continued to be the research and development of novel therapeutic agents for the treatment of cancer and inflammatory disorders.

A number of restructuring events occurred during 2013 and 2014. At the date of this report, the Group operates virtually with limited ongoing operations, employees or research responsibilities. It retains the rights to receive milestones and royalties from certain technology programs divested to the following companies. These companies are responsible for all ongoing research and development activity, cost and decision-making:

- GlaxoSmithKline ("GSK") – the clinical development candidate CHR-5154; and
- CRT Pioneer Fund ("CRTPF") - the clinical development candidate CHR-2845 and ESM technology.

### General business review – consolidated statement of profit or loss and other comprehensive income

In December 2013 the Group restructured its collaboration with GSK relating to its clinical development candidate CHR-5154 such that GSK became solely responsible for all research and development activities. During January 2014 the Company entered into a further sub-lease of its facility at 93 Milton Park, providing a stream of rental income to offset in part the expense of the unused space in the facility. In June 2014 the Company made a capital payment to the landlord in return for the surrender of the lease and release from all associated obligations. In October 2014 the Group divested its tosedostat programme, which was previously being developed with its partner CTI Biopharma Inc. ("CTI"), to CTI for a one-off payment of £13,302,981 in CTI shares. In November 2014 the Group divested its CHR-2845 programme and ESM technology to CRTPF for an up-front cash payment of £350,000 along with a share of future revenues generated from these programmes.

The Group does not have regular sources of revenue other than interest earned on its cash and short term deposits and the UK R&D tax credit scheme, which enables the Company to surrender a proportion of its tax losses relating to research and development in each financial year in return for a cash receipt.

The Group also receives income relating to the achievement of milestones under its collaborations with GSK, CRTPF and, up until November 2014, its collaboration with CTI: research and development collaboration income, recognised in revenue over the relevant development periods, is more predictable once received in cash, while discrete milestone income is less predictable. As detailed in Note 4, the Group received cash payments totalling £1,850,000 in respect of signature fees from GSK and CRTPF during the year ended 31 December 2014 and recognised previously deferred income totalling £1,847,257 arising from its collaboration with CTI.

Research and development expenditure decreased significantly compared to the previous financial year, reflecting the restructuring of its collaborations and the virtualisation of the Group during the year. General and administrative expenses were also reduced in comparison to the previous financial year as a result of the restructuring.

The Group's income and expenses during the year were in line with its expectations.

### General business review – consolidated balance sheet

The balance sheet has total assets amounting to £14,026,368 (31 December 2013 (restated): £970,930).

#### Assets

The significant increase in current assets largely arises from the receipt of shares in CTI noted above, partly offset by a lower R&D tax credit repayment claim reflecting the significant reduction in R&D activities.

#### Liabilities

Total liabilities are in line with the prior year with a reduction in deferred income of £1,847,257 arising from the recognition of revenue noted above offset by accrued interest on the unsecured loan (see Note 18). At the date of this report, the unsecured loan notes payable have a contractual repayment date of January 2018. The future cash repayment amount, as of 31 December 2014, is £32,090,000.

Other assets and liabilities are in line with the previous year and the Group's expectations.

## Strategic report (continued)

### General business review – consolidated cashflow statement

Cash is in line with the previous year, with cash received from GSK and CRTPF (as noted above) largely being consumed by operational requirements and restructuring costs. Cash as at the year end was in line with the Group's expectations.

### Analysis of financial key performance indicators

The Group primarily measures its performance based upon the achievement of key milestones in its research and development programme, however net cash generated from operations is considered a key financial indicator.

### Principal risks and uncertainties

The Group operates in a high-risk sector, which is reflected in the Group's investor base, comprising primarily specialist venture capital organisations. The key risks facing the Group, which are separated into those facing the Group's collaborators and that risk facing the Group, are as follows:

#### a) *Risks facing the Group's collaborators:*

##### *Product risk*

The development of a new therapeutic agent carries substantial risks, including difficulties in the design and execution of studies to evaluate the efficacy and safety of the agent or the results from such studies being inconsistent with those from earlier studies. In addition, the pharmaceutical sector is highly competitive with many companies pursuing similar therapeutic approaches. There is substantial risk that competitors' agents may reach the market ahead of those being developed by the Group's collaborators or have a superior profile to these agents, or that the Group's patent filings may be found to infringe the rights of others or be declared invalid.

##### *Regulatory risk*

The pharmaceutical sector is regulated by relevant authorities in the EU, US and the rest of the world. There is substantial risk that the Group's collaborators may not be able to agree study designs with regulatory authorities that are mutually acceptable or that regulatory requirements may change during the course of a study, rendering the results of the study unusable.

#### b) *Risk facing the Group*

##### *Financing risk*

At the date of this report, the sole future income stream for the Group is the receipt of milestones and royalties from its collaborators, GSK and CRT Pioneer Fund, contingent on the successful achievement of future product development, regulatory approval and sales objectives, all of which are outside of the control of the Group. The timing and quantum of those receipts is uncertain, although the expected timing extends between 1 and 5 years from the balance sheet date.

At the date of this report (25 February 2016), the Group has insufficient funds to settle unsecured loans with a cash total repayment amount of £32.1m, due in January 2018, after deducting expected net cash receipts from the sale of CTI shares of £12,147,550 during 2015. The Group will be required to negotiate the further extension of the unsecured loans' current contractual repayment terms until further cash receipts from Group collaborators occur. If further cash receipts from collaborators are insufficient to settle the remaining unsecured loans, the Group will be required to negotiate the waiver of certain proportions of the unsecured loans owed to shareholders.

On behalf of the Board



**R E Bungay**  
Director

## **Directors' report**

for the year ended 31 December 2014

The directors present their report and consolidated financial statements for Chroma Therapeutics Ltd ('the Company'; registered number 04066289) and its subsidiary (together 'the Group') for the year ended 31 December 2014.

### **Going concern**

The consolidated financial statements have been prepared on a going concern basis, which assumes that, for the foreseeable future, the Group will continue in operation and be able to meet its liabilities as they fall due. In concluding that it is appropriate to adopt the going concern basis the directors considered cash flow forecasts for the 12 month period from the date of these financial statements (25 February 2016).

Given the various restructuring events which began in 2012 and continued to the date of this report, as further described in the business review section of the Strategic Report, the Directors describe here the position at the date of this Report.

The Group's sole debt obligations, other than minimal working capital supplier balances, are the unsecured loan notes held by certain of the Group's corporate shareholders, with a contractual repayment date of 19 January 2018. The future cash repayment amount, as at 31 December 2014, is fixed at £32,090,000, including principal and all associated interest/redemption premiums.

The Group's principal liquid asset is a holding of shares in the Nasdaq-listed Group, CTI, which is valued at £13,627,615 based on open market value at 31 December 2014. The CTI shares have been sold for cash in the open market during 2015, under the terms of the disposal of tosedostat agreement with CTI, signed in October 2014, with the proceeds largely used to part settle the unsecured loan notes. As of the date of this report, future fixed cash repayments of £19,942,450 are due by 19 January 2018, to settle the unsecured loan notes.

The Group is now a virtual company, with minimal cash outgoings, and is organised in order to collect potential future milestones, royalties and revenue shares from its collaborations with GSK and CRTPF.

Based on current financial forecasts, the Group has adequate funds to run its envisaged operations for the 12 month period from the date of these financial statements.

Whilst the principal asset detailed above has enabled the Group to repay part of the unsecured loan notes, a significant proportion is expected to remain outstanding at the current contractual repayment date of 19 January 2018. Although uncertainties exist in relation to the timing and quantum of future cash receipts from GSK and CRTPF, and completing the extension of the contractual repayment date of unsecured loans until after the receipt of such amounts, the Directors have reasonable expectations that the noteholders will consent to extending the contractual repayment date and that sufficient future milestones, royalties and revenue shares will be generated to enable the remaining unsecured loan notes to be repaid. In the event that such future cash receipts are not sufficient to repay the outstanding unsecured loan notes, the Group would renegotiate the outstanding loan amounts to a level which could be settled based on funds available. The status of future collaboration income will be reassessed regularly by the directors and shareholders/loan note holders.

Accordingly the Board considers that the business is a going concern and continues to adopt the going concern basis in preparing the financial statements. The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern.

## Directors' report (continued)

### Results and dividends

The Group made a profit for the year of £21,435,132 (year ended 31 December 2013 (restated): loss of £1,055,053). The restatement of results for the year ended 31 December 2013, relating to the extension of the repayment date of the unsecured loan notes in May 2013 (see Note 18), is discussed in Note 24 and the impact on reserves is shown in the consolidated statement of changes in equity. The directors do not recommend the payment of a dividend. Expenditure on tangible fixed assets during the year was £nil (year ended 31 December 2013: £nil).

### Future developments

Following the restructuring of its operations to become a virtual company with minimal cash burn, the Group expects expenditures to be significantly lower in 2015.

### Directors and their interests

The directors who held office during the year and their interests in the share capital of the Company, as recorded in the register of directors' interests, of those serving at the year end, were as follows:

	Options over ordinary shares of £0.001 each		Ordinary shares of £0.001 each	
	At 31 Dec 2014	At 31 Dec 2013	At 31 Dec 2014	At 31 Dec 2013
P V Allen	80,000	80,000	80,000	80,000
R E Bungay	250,000	350,000	-	-

Ordinary shares issued to directors and employees are subject to a vesting period of between 13 months and 59 months from the date of issue. Vesting conditions for share options are detailed in Note 12 to the financial statements.

### Directors' qualifying third party indemnity provisions

The Company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### Financial risk management

The Group continually reviews its exposure to different foreign currencies and, where available, will enter into the most appropriate hedging arrangements to minimise the impact of adverse exchange rate movements where necessary. As at 31 December 2014 the Group had a material exposure to the US dollar in light of its shareholding in CTI; however in light of the intention to sell these shares in the open market the Group during 2015 the Group has not sought to hedge this exposure in any way. The Group did not have any other material exposures to foreign currencies. To the extent that cash reserves are not required to meet immediate operational requirements, excess reserves are invested in fixed interest investment grade bank deposits. The Group does not currently have any material exposure to credit risk.

### Charitable and political donations

The Group did not make any charitable or political donations during the year.

### Payment of creditors

The Group's policy with respect to the payment of its suppliers is to either use standard payment terms or to agree payment terms when entering into a transaction and to abide by those terms. Trade payables as at 31 December 2014 were minimal, reflecting the virtualisation of the Group.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Re-appointment of auditors

A resolution to reappoint Ernst & Young LLP as auditors and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

## **Directors' report (continued)**

### **Statement of directors' responsibilities in respect of the consolidated financial statements**

Company Law requires that the directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable United Kingdom law and have elected to prepare consolidated financial statements in accordance with those International Financial Reporting Standards as adopted by the European Union. Under Company Law the directors must not approve the consolidated financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing those consolidated financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS8: Accounting Policies, Changes in Accounting Estimates and Errors, and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Events after the end of the reporting period**

As at the date of signing these financial statements, loan notes with a redemption value to £12,147,550 had been retired following sale of the CTI shares and distribution of the cash proceeds to the loan note holders during 2015. During January 2016 the Loan Note holders agreed to extend the repayment date of the balance of loan notes to 19 January 2018 with no change to the repayment amount.

This report was approved by the Board on 25 February 2016 and has been prepared in accordance with the Companies Act 2006.

On behalf of the Board



**R E Bungay**  
Director

## Independent auditor's report to the members of Chroma Therapeutics Limited

We have audited the consolidated and parent company financial statements (the "financial statements") of Chroma Therapeutics Limited for the year ended 31 December 2014 which comprise the consolidated statement of profit or loss and other comprehensive income, consolidated and parent company balance sheets, the consolidated and parent company statements of changes in equity, the consolidated and parent company cash flow statements and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group and Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Group and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.


### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



David Hales (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor

Reading

Date: 28 February 2016

**Consolidated statement of profit or loss  
and other comprehensive income**  
for the year ended 31 December 2014

	Note	Year ended 31 December 2014 £	Restated* Year ended 31 December 2013 £
<b>Revenue</b>	4	17,000,239	5,135,538
Research and development costs		(749,895)	(2,823,253)
Administrative expenses		(331,416)	(1,549,844)
Restructuring income	4	-	908,917
Other operating expense	4	(36,691)	(22,521)
<b>Operating profit</b>		<b>15,882,237</b>	<b>1,648,837</b>
Finance revenue	4	18,258,015	10,598,914
Finance expense	4	(12,705,120)	(13,520,401)
<b>Profit/(Loss) before taxation</b>		<b>21,435,132</b>	<b>(1,272,650)</b>
Tax credit	7	-	217,597
<b>Total comprehensive income/(expense) for the year</b>		<b>21,435,132</b>	<b>(1,055,053)</b>

\* Please refer to note 24 for further details.

**Consolidated balance sheet**  
as at 31 December 2014

	Note	31 December 2014 £	Restated 31 December 2013 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	-	-
<b>Current assets</b>			
Trade and other receivables	10	176	423,122
R&D tax credit receivable	7	155,723	155,723
Prepayments		19,723	177,187
Available for sale investments		13,663,119	21,231
Cash and short term deposits	11	187,627	193,667
		<u>14,026,368</u>	<u>970,930</u>
<b>TOTAL ASSETS</b>		<u>14,026,368</u>	<u>970,930</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	13	49,999	49,999
Share premium		63,566,660	63,566,660
Warrants		118,934	118,934
Other reserves	13	203,281	224,913
Accumulated losses		(64,297,007)	(85,732,139)
<b>Total equity</b>		<u>(358,133)</u>	<u>(21,771,633)</u>
<b>Non-current liabilities</b>			
Deferred income	16	-	1,407,147
Unsecured loan	18	13,638,375	19,190,700
Provisions	19	-	388,169
		<u>13,638,375</u>	<u>20,986,016</u>
<b>Current liabilities</b>			
Trade and other payables	15	746,126	1,316,437
Deferred income	16	-	440,110
Secured loan	17	-	-
		<u>746,126</u>	<u>1,756,547</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>14,026,368</u>	<u>970,930</u>

Approved by the Board on 25 February 2016 signed on its behalf by



**R E Bungay**  
Director

Company number: 04066289 (England & Wales)

**Company balance sheet**  
as at 31 December 2014

	Note	31 December 2014 £	Restated 31 December 2013 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	-	-
Investment in subsidiary company	9	5,000,002	5,000,002
		<u>5,000,002</u>	<u>5,000,002</u>
<b>Current assets</b>			
Trade and other receivables	10	176	423,122
R&D tax credit receivable	7	155,723	155,723
Prepayments		19,723	177,187
Available for sale investments		13,663,119	21,231
Cash and short term deposits	11	187,627	193,667
		<u>14,026,368</u>	<u>970,930</u>
<b>TOTAL ASSETS</b>		<u>19,026,370</u>	<u>5,970,932</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	13	49,999	49,999
Share premium		63,566,660	63,566,660
Warrants		118,934	118,934
Other reserves	13	203,281	224,913
Accumulated losses		(59,297,005)	(80,732,137)
<b>Total equity</b>		<u>4,641,869</u>	<u>(16,771,631)</u>
<b>Non-current liabilities</b>			
Deferred income	16	-	1,407,147
Unsecured loan	18	13,638,375	19,190,700
Provisions	19	-	388,169
			<u>20,986,016</u>
<b>Current liabilities</b>			
Trade and other payables	15	746,126	1,316,437
Deferred income	16	-	440,110
Secured loan	17	-	-
		<u>746,126</u>	<u>1,756,547</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>19,026,370</u>	<u>5,970,932</u>

Approved by the Board on 25 February 2016 signed on its behalf by



**R E Bungay**  
Director

**Consolidated and company statements of changes in equity**  
for the year ended 31 December 2014

	Issued capital £	Share premium £	Warrants £	Other reserves £	Accumulated losses £	Total equity £
<b>Group</b>						
At 1 January 2013	49,999	63,566,660	118,934	227,291	(84,677,086)	(20,714,202)
Expense reversal of share options issued to employees (Note 12)	-	-	-	(2,378)	-	(2,378)
Loss for the year as restated (Note 24)	-	-	-	-	(1,055,053)	(1,055,053)
<b>At 31 December 2013 (restated)</b>	<b>49,999</b>	<b>63,566,660</b>	<b>118,934</b>	<b>224,913</b>	<b>(85,732,139)</b>	<b>(21,771,633)</b>
Expense reversal of share options issued to employees (Note 12)	-	-	-	(21,632)	-	(21,632)
Profit for the year	-	-	-	-	21,435,132	21,435,132
<b>At 31 December 2014</b>	<b>49,999</b>	<b>63,566,660</b>	<b>118,934</b>	<b>203,281</b>	<b>(64,297,007)</b>	<b>(358,133)</b>
<b>Company</b>						
At 1 January 2013	49,999	63,566,660	118,934	227,291	(78,649,524)	(14,686,640)
Expense reversal of share options issued to employees (Note 12)	-	-	-	(2,378)	-	(2,378)
Loss for the year as restated (Note 24)	-	-	-	-	(2,082,613)	(2,082,613)
<b>At 31 December 2013 (restated)</b>	<b>49,999</b>	<b>63,566,660</b>	<b>118,934</b>	<b>224,913</b>	<b>(80,732,137)</b>	<b>(16,771,631)</b>
Expense reversal of share options issued to employees (Note 12)	-	-	-	(21,632)	-	(21,632)
Profit for the year	-	-	-	-	21,435,132	21,435,132
<b>At 31 December 2014</b>	<b>49,999</b>	<b>63,566,660</b>	<b>118,934</b>	<b>203,281</b>	<b>(59,297,005)</b>	<b>4,641,869</b>

**Consolidated and company cashflow statements**  
for the year ended 31 December 2014

	Note	Group Year ended 31 December 2014 £	Company Year ended 31 December 2014 £	Group Year ended 31 December 2013 £	Company Year ended 31 December 2013 £
<b>Cash flows from operating activities</b>					
Operating profit		15,882,237	15,882,237	1,648,837	621,277
Adjustments to reconcile operating profit to net cash flows from operating activities:					
Non-cash items					
• Reversal of expense of share options issued to employees		(21,632)	(21,632)	(2,378)	(2,378)
• Revaluation of shares held as investment		(338,907)	(338,907)	9,312	9,312
• Licensing income received as non-cash consideration		(13,302,981)	(13,302,981)	-	-
• Release of provision against amount due from subsidiary company	10	-	(1,801,336)	-	(774,809)
• Release of provision for onerous lease	19	(388,169)	(388,169)	(1,232,671)	(1,232,671)
• Depreciation and impairment	8	-	-	27,050	27,050
• Impairment of assets		-	-	51,332	51,332
• Profit on disposal of fixed assets	8	(6,130)	(6,130)	(38,122)	(38,122)
Working capital adjustments					
• Income tax received		-	-	539,957	539,957
• Decrease in payables		(2,417,568)	(2,417,568)	(1,674,227)	(646,667)
• Decrease in receivables		580,410	2,381,746	3,938,321	4,713,130
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(12,740)</b>	<b>(12,740)</b>	<b>3,267,411</b>	<b>3,267,411</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment	8	6,130	6,130	38,122	38,122
<b>Net cash flows generated by investing activities</b>		<b>6,130</b>	<b>6,130</b>	<b>38,122</b>	<b>38,122</b>
<b>Cash flows from financing activities</b>					
Interest received		570	570	1,472	1,472
Repayment of secured loan principal		-	-	(3,299,762)	(3,299,762)
Interest paid on secured loans		-	-	(238,225)	(238,225)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>570</b>	<b>570</b>	<b>(3,536,515)</b>	<b>(3,536,515)</b>
Effect of exchange rate changes		-	-	202,378	202,378
Net (decrease) in cash and cash equivalents		(6,040)	(6,040)	(28,604)	(28,604)
Cash and cash equivalents at start of period	11	193,667	193,667	222,271	222,271
<b>Cash and cash equivalents at end of period</b>	<b>11</b>	<b>187,627</b>	<b>187,627</b>	<b>193,667</b>	<b>193,667</b>

**1 CORPORATE INFORMATION**

The group and company financial statements of Chroma Therapeutics Limited for the year ended 31 December 2014 ("financial statements") were authorised for issue in accordance with a resolution of the directors on 25 February 2016. Chroma Therapeutics Limited is a limited company incorporated in England & Wales and domiciled in the United Kingdom.

**2 BASIS OF PREPARATION**

The consolidated financial statements have been prepared on a historical cost basis, except for provisions, employee share options, warrants and items settled by issue of shares, which have been measured at fair value. The financial statements are presented in sterling and all values are rounded to the nearest pound.

*Going concern*

The consolidated financial statements have been prepared on a going concern basis, which assumes that, for the foreseeable future, the Group will continue in operation and be able to meet its liabilities as they fall due. In concluding that it is appropriate to adopt the going concern basis the directors considered cash flow forecasts for the 12 month period from the date of these financial statements (25 February 2016).

Given the various restructuring events which began in 2012 and continued to the date of this report, as further described in the business review section of the Strategic Report, the Directors describe here the position at the date of this Report.

The Group's sole debt obligations, other than minimal working capital supplier balances, are the unsecured loan notes held by certain of the Group's corporate shareholders, with a contractual repayment date of January 2018. The future cash repayment amount at 31 December 2014 is fixed at £32,090,000, including principal and all associated interest/redemption premiums.

The Group's principal liquid asset is a holding of shares in the Nasdaq-listed Group, CTI, which is valued at £13,627,615 based on open market value at 31 December 2014. The CTI shares have been sold for cash in the open market during 2015, under the terms of the disposal of tosedostat agreement with CTI, signed in October 2014, with the proceeds largely used to part settle the unsecured loan notes. As of the date of this report, future fixed cash repayments of £19,942,450 are due by 19 January 2018, to settle the unsecured loan notes.

The Group is now a virtual company, with minimal cash outgoings, and is organised in order to collect potential future milestones, royalties and revenue shares from its collaborations with GSK and CRTPF.

Based on current financial forecasts, the Group has adequate funds to run its envisaged operations for the 12 month period from the date of these financial statements (25 February 2016).

Whilst the principal asset detailed above has enabled the Group to repay part of the unsecured loan notes, a significant proportion is expected to remain outstanding at the current contractual repayment date of 19 January 2018. Although uncertainties exist in relation to future cash receipts from GSK and CRTPF, and completing the extension of the contractual repayment date of unsecured loans until after the receipt of such amounts, the Directors have reasonable expectations that the noteholders will consent to further extending the contractual repayment date and that sufficient future milestones, royalties and revenue shares will be generated to enable the remaining unsecured loan notes to be repaid. In the event that such future cash receipts are not sufficient to repay the outstanding unsecured loan notes, the Group would renegotiate the outstanding loan amounts to a level which could be settled based on funds available. The status of future collaboration income will be reassessed regularly by the directors and shareholders/loan note holders.

## **2 BASIS OF PREPARATION (continued)**

### *Going concern (continued)*

Accordingly the Board considers that the business is a going concern and continues to adopt the going concern basis in preparing the financial statements. The financial statements do not contain the adjustments that would result if the Group was unable to continue as a going concern.

### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of Chroma Therapeutics Limited and its subsidiary as at 31 December each year. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared with the same accounting reference date of 31 December, using consistent accounting policies. All intra-group transactions are eliminated in full. No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act 2006. The Company made a profit for the year of £21,435,132 (year ended 31 December 2013 (restated): loss of £2,082,613).

### *Statement of compliance*

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. All IFRSs issued by the International Accounting Standards Board ("IASB") that were effective at the time of preparing the financial statements and adopted by the European Commission for use inside the EU were applied by the Group. These Group and the Company financial statements have been prepared in accordance with IFRS and the Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

### *Changes in accounting policies*

The accounting policies adopted by the Group are consistent with the previous financial year except for the following relevant new and amended IFRSs and IFRIC interpretations effective as of 1 January 2014:

- IFRS 10 *Consolidated Financial Statements* Amendments for investment entities effective 1 January 2014
- IFRS 12 *Disclosure of Interests in Other Entities* Amendments for investment entities effective 1 January 2014
- IAS 27 *Separate Financial Statements (as amended in 2011)* Amendments for investment entities effective 1 January 2014
- IAS 32 *Financial Instruments: Presentation* Amendments relating to the offsetting of assets and liabilities effective 1 January 2014
- IAS 36 *Impairment of Assets* Amendments arising from *Recoverable Amount Disclosures for Non-Financial Assets* effective 1 January 2014
- IAS 39 *Financial Instruments: Recognition and Measurement* Amendments for novations of derivatives effective 1 January 2014

Adoption of these standards did not have any effect on the Group, or result in any changes in accounting policy or additional disclosure.

### *New IFRSs and interpretations not yet adopted*

The following new IFRSs and interpretations, relevant to the Group, have been issued up to the date of signing the 2014 financial statements but are not yet effective and have not been applied in the Group's 2014 financial statements:

- IFRS 9 *Financial Instruments* effective 1 January 2018
- IFRS 15 *Revenue from Contracts with Customers* effective 1 January 2017
- *Annual Improvements 2010-2012 Cycle* effective 1 July 2014
- *Annual Improvements 2011-2013 Cycle* effective 1 July 2014
- *Annual Improvements 2012-2014 Cycle* effective 1 January 2016

The Group plans to adopt IFRS 9 for the year commencing 1 January 2015. This may impact both the measurement and disclosure of financial instruments. The impact of the adoption of the other IFRSs and interpretations listed above is not expected to have a material impact on the financial position or performance of the Group.

**2 BASIS OF PREPARATION (continued)**

*Significant accounting judgements, estimates and assumptions*

The Group has not applied any judgements (other than estimations) having a significant effect on any amounts recognised in the financial statements. The Group has not identified any assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Property, plant and equipment**

Property, plant and equipment is stated at cost, excluding the costs of routine servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is calculated on a straight line basis over the useful life of the assets. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Any item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the financial year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

**Intangible assets**

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is expensed as incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and are assessed for impairment whenever there is indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

**Research and development costs**

The principal business activity of the Group is the research and development of human therapeutic agents. In order to achieve authorisation from the appropriate regulatory authorities to sell human therapeutic agents, multiple studies and clinical trials must be successfully completed. Such activities require the application of substantial resources and skilled individuals, which may not be available to the Group on a timely basis or at all. The risks associated with the successful completion of a registration programme for a therapeutic agent are substantial. In many cases the Group may choose to license its therapeutic programmes to a third party with substantially greater resources, however the risks associated with successful completion of a registration programme remain high.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Intangible assets (continued)**

Research costs are expensed as incurred. Reflecting the risks highlighted above, the Group capitalises internal development costs only to the extent that it is more likely than not that the associated therapeutic agent will obtain authorisation from regulatory authorities. The threshold for such recognition will normally be the successful completion of the final human clinical studies required to complete a registration package for a therapeutic agent. The value of such an intangible asset is capitalised by reference to the costs incurred in creating the asset and then amortised by reference to the useful economic life of, and the projected revenues from, the therapeutic agent. Likewise, the Group may from time to time acquire rights to use the intellectual property of a third party in the conduct of its research and development programmes. The ability to generate future economic benefits from such rights are subject to the successful registration of the programmes using such intellectual property, and therefore the same risks as noted above. Consequently, intangible assets arising from acquired intellectual property rights are subject to the same capitalisation and amortisation criteria as internal development costs, as noted above. The Group has not incurred any costs meeting the capitalisation criteria detailed above to date.

**Impairment of assets**

The Group assesses at each end of reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or where annual impairment testing for an asset is required, the Group makes an estimate of the assets recoverable amount. An assets recoverable amount is the higher of an assets fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each end of reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**Available-for-sale investment - quoted equity shares**

Assets are designated as available-for-sale if they are not held for operational purposes and are readily tradable on a recognised investment exchange. The fair value of the quoted equity shares is determined by reference to published price quotations in an active market.

**Cash and short-term deposits**

Cash and short-term deposits in the balance sheet comprise cash at banks net of outstanding bank overdrafts, cash in hand and treasury deposits. All treasury deposits are held to meet operational needs, have an original maturity of twelve months or less, are readily tradable and are recorded in the balance sheet at their open market value. Consequently, all treasury deposits are classified as cash and cash equivalents.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent upon the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- a There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c There is a change of the determination of whether fulfilment is dependent upon a specified asset; or
- d There is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c and d and at the date of renewal or extension for scenario b.

***Company as lessee***

Operating lease payments are recognised as an expense in the statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

**Pensions and other post-employment benefits**

The Company operates a defined contribution pension scheme and pension contributions are charged to the statement of comprehensive income as incurred.

**Share-based payment transactions**

From time-to-time the Company issues shares as consideration for rights granted under technology licence agreements and grants share options to employees of the Group. Both types of share-based payment are equity settled transactions as detailed below.

***Equity-settled transactions***

The cost of equity-settled technology rights transactions is measured by reference to fair value of the equity issued at the date on which the relevant technology rights are granted to the Group. The cost is expensed to the statement of profit or loss and other comprehensive income immediately on obtaining such rights.

The cost of equity-settled transactions with employees and directors is measured by reference to the fair value at the date at which they are granted (after approval by the directors) and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees and directors become fully entitled to the award. Fair value is determined using the Black-Scholes pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each end of reporting period before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous end of reporting period is recognised in the statement of profit or loss and other comprehensive income, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share-based payment transactions (continued)**

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of profit or loss and other comprehensive income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the statement of profit or loss and other comprehensive income.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

*Onerous property lease payments*

Provisions for property lease payments are recognised to the extent that the Group's non-cancellable obligations to lease space are substantially in excess of its anticipated requirements. To the extent that excess space is sub-let, the rental income is netted off of the Group's expected cash outflows for the excess space, to the extent that such rental income is contractually committed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax risk-free interest rate.

**Warrants**

Warrants are measured at the date of issue using the Black-Scholes pricing model taking into account the terms and conditions upon which the instruments were granted (see Note 14). The treatment of warrants issued to Hercules during 2010 is explained in Note 14.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest income*

Revenue is recognised as interest accrues using the effective interest rate method.

*Research and development collaboration income*

Receipts under research and development collaboration agreements are recognised upon confirmation from the collaborator that the relevant criteria for receipt of such payments have been met by the Group. Where the income relates to an ongoing obligation it is recognised as income over the period necessary to match the income on a systematic basis to the costs relating to the contractual obligation. Where the income relates to the successful completion of an objective under the collaboration agreement (referred to as a "milestone" receipt), it is fully recognised upon confirmation from the collaborator that the relevant criteria for receipt of such payments have been met by the Group.

**Taxation**

*Current tax*

Current tax assets for the current and prior periods are measured at the amount expected to be recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of reporting period.

The amount recorded in the financial statements as research and development tax credit receivable by the Group for the financial year ended 31 December 2013 is an estimated amount and has not yet been agreed with HM Revenue & Customs.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Taxation (continued)**

*Deferred tax*

Deferred income tax is provided using the liability method on temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each end of reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply to the year when the asset is realised, based on tax rates (and tax laws) enacted or substantively enacted at the end of reporting period.

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Backend fees (including 'balloon' interest payments) on interest-bearing loans and redemption premiums on non-interest bearing loans are amortised using the effective interest rate method over the period of the loan. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

**Borrowing costs**

Interest payable on loans is recognised as it accrues using the effective interest rate method.

**Foreign currency translation**

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the end of each reporting period. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. All exchange differences arising in the normal course of business are taken to the statement of profit or loss and other comprehensive income as they arise.

**Segment information**

The Group operates in one business segment, the research and development of novel therapeutic agents for the treatment of cancer and inflammatory disorders. The Group's revenue streams during the reporting period were research and development collaboration income and the sale of technology (Note 4). As a consequence, no segmental analysis of revenue is required for the reporting period; a geographic split of research and development collaboration income is presented based upon the country of domicile of the collaboration partner.

**4 REVENUE AND EXPENSES**

Revenue comprises the following:

	<b>Year ended 31 Dec 2014</b>	<b>Year ended 31 Dec 2013</b>
	<b>£</b>	<b>£</b>
Milestone revenue (Note 4a)	1,847,257	1,467,670
Research and development collaboration income (Note 4a)	-	2,666,668
Sale of technology	15,152,982	1,000,000
Sales of consumable items	-	1,200
	<b>17,000,239</b>	<b>5,135,538</b>

**4 REVENUE AND EXPENSES (continued)**

Revenue was derived from the following territories:

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
UK	1,850,000	4,695,428
United States	15,150,239	440,110
	<u>17,000,239</u>	<u>5,135,538</u>

**(a) Research and development collaboration income**

During the year ended 31 December 2009, the Group entered into a multi-year research and development collaboration agreement with GlaxoSmithKline ("GSK Agreement") under which the Group will progress four specified research programmes to completion of clinical proof of concept studies. The Group received an upfront payment of £5,000,000 following signature of the GSK Agreement, which was allocated equally over the four research programmes. During the year ended 31 December 2013 the GSK Agreement was renegotiated such that GSK became solely responsible for all research and development activities, with a consequent reduction in the downstream milestone payments and royalties due to the Group. Upon execution of this amendment a signature fee of £1,000,000 was payable to the Group and was recognised in the statement of of profit or loss and other comprehensive income for the year ended 31 December 2013. A further £1,500,000 was paid to the Group reflecting achievement of certain deliverables and was recognised in the statement of of profit or loss and other comprehensive income for the year ended 31 December 2014. Reflecting the changes to the GSK Agreement, previously deferred revenue of £883,810 in respect of the original £5,000,000 signature payment and £143,750 in respect of the provision of research materials was recognised in the statement of of profit or loss and other comprehensive income for the year ended 31 December 2013.

During the year ended 31 December 2013, the Group earned milestone receipts totalling £2,666,668 relating to the successful completion of objectives under the GSK Agreement, which were fully recognised in the statement of of profit or loss and other comprehensive income.

During the year ended 31 December 2011, the Company entered into a collaboration agreement with Cell Therapeutics, Inc. ("CTI") under which CTI and the Company were jointly developing the Company's lead agent, tosedostat, with CTI receiving exclusive rights to manufacture and commercialise tosedostat in the Americas. The Company received an upfront payment of \$5,000,000 (£3,086,801) following signature of the agreement with CTI which is being recognised over the life of the collaboration. For the year ended 31 December 2013 the Group recognised revenue of £440,110 in the statement of of profit or loss and other comprehensive income. During the year ended 31 December 2014 the Group divested its tosedostat programme to CTI for a one-off payment of £13,302,981 in CTI shares, which has been recognised fully in the statement of of profit or loss and other comprehensive income. Reflecting the cessation of all the Group's obligations with respect to tosedostat, previously deferred revenue of £1,847,257 in respect of the original \$5,000,000 signature payment was recognised in the statement of of profit or loss and other comprehensive income for the year ended 31 December 2014.

During the year ended 31 December 2014 the Group divested its ESM technology to CRTPF and received an up-front cash payment of £350,000 which was recognised in the statement of of profit or loss and other comprehensive income for the year ended 31 December 2014.

A reconciliation of deferred income is shown in Note 16.

**4 REVENUE AND EXPENSES (continued)**

**(b) Depreciation and amortisation included in the statement of profit or loss and other comprehensive income**

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
Included in research and development costs:		
Depreciation and impairment	-	9,606
Operating lease expense	484,534	357,456
Operating lease sub-letting income	(135,961)	(108,444)
Included in administrative expenses:		
Depreciation and impairment	-	17,444
Operating lease expense	145,624	107,550
Operating lease sub-letting income	(40,781)	(32,628)
Net foreign exchange differences	(381,821)	228,450

Operating lease expense and sub-letting income disclosed above excludes the provision against future lease costs, utilisation of the provision during the year and subsequent reversal detailed in Note 19.

**(c) Employee benefits expense**

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
Wages and salaries	586,568	1,121,614
Social security costs	63,118	99,948
Pension costs	31,576	53,463
Income of share options issued to employees	(21,631)	(2,378)
	<u>659,631</u>	<u>1,272,647</u>
Of which:		
Included in research and development costs	164,672	395,620
Included in administrative expenses	494,959	877,027
	<u>659,631</u>	<u>1,272,647</u>

**(d) Other operating income/(expense)**

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
Profit on disposal of fixed assets	6,130	38,122
Impairment of fixed assets	-	(51,332)
Loss on revaluation of available-for-sale investments	(42,821)	(9,311)
	<u>(36,691)</u>	<u>(22,521)</u>

**4 REVENUE AND EXPENSES (continued)**

(e) Fees paid to auditors

Administrative Expenses include fees paid to the auditors for audit services of £15,000 (year ended 31 December 2013: £20,000), for corporate finance advisory services of £nil (year ended 31 December 2013: £nil), for other services relating to taxation of £2,500 (year ended 31 December 2013: £5,000) and other accounting services of £2,500 (year ended 31 December 2013: £2,500). The fees for audit services include £2,500 in respect of the audit of the Company's subsidiary (year ended 31 December 2013: £4,000).

(f) Restructuring expenses

	Year ended 31 Dec 2014	Year ended 31 Dec 2013
	£	£
Release of provision for onerous lease payments (Note 19)	-	(908,917)

(g) Finance revenue and expense

Finance revenue comprises the following:

	31 Dec 2014	Restated 31 Dec 2013
	£	£
Interest receivable on cash at bank and short term deposits	570	1,472
Gain on extinguishment of unsecured loan (Note 18)	18,257,445	10,597,442
	<u>18,258,015</u>	<u>10,598,914</u>

Finance expense comprises the following amounts:

	31 Dec 2014	Restated 31 Dec 2013
	£	£
Interest payable on \$10,000,000 secured loan (Note 17)	-	238,225
Amortisation of redemption premium on unsecured loan (Note 18)	-	6,112,176
Accretion of unsecured loan fair value to repayment amount (Note 18)	12,705,120	7,170,000
	<u>12,705,120</u>	<u>13,520,401</u>

**5 EMPLOYEES**

The average number of employees of the Group during the year was as follows:

	Year ended 31 Dec 2014	Year ended 31 Dec 2013
Research and development	2	4
Administration	1	3
	<u>3</u>	<u>7</u>

**6 DIRECTORS' REMUNERATION**

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
Total emoluments	468,209	925,147
Compensation for loss of office	81,568	-
Employers contributions paid to money purchase pension schemes	14,883	16,467

Total emoluments for the year ended 31 December 2014 include £249,949 (year ended 31 December 2013: £392,611) recognised in respect of bonuses under a long term incentive plan (LTIP) which had either accrued prior to the year end but which were paid after the year end or was the portion of the estimated future payments likely to accrue under the LTIP attributable to the period from initiation of the LTIP to the financial year end. As at 31 December 2014, no director (31 December 2013: one director) was accruing benefits under defined contribution pension schemes.

The amounts in respect of the highest paid director are as follows:

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
Total emoluments	391,386	752,942
Employers contributions paid to money purchase pension schemes	14,883	16,467

**7 TAXATION**

(a) Current income tax

	Year ended 31 Dec 2014 £	Year ended 31 Dec 2013 £
R&D tax credit receivable – draft claim for financial year	-	155,723
R&D tax credit receivable – adjustment in respect of prior year	-	61,874
	-	217,597

(b) Factors affecting the tax credit for the year

The tax assessed on the profit for the year for the Group is lower than the effective standard rate of UK corporation tax. The differences are explained below:

**7 TAXATION (continued)**

	<b>Year ended 31 Dec 2014 £</b>	<b>Restated Year ended 31 Dec 2013 £</b>
Profit/(Loss) before tax	21,435,132	(1,272,650)
Profit/(Loss) before tax multiplied by effective standard rate of corporation tax in the UK of 21.5% (year ended 31 December 2013: 23.25%)	4,608,553	(295,891)
Effect of:		
Disallowed expenses and non-taxable income	(80,039)	(190,592)
Enhanced deduction – R&D relief	(117,138)	(465,516)
Timing differences between capital allowances and depreciation charges	(328)	13,363
Losses surrendered for R&D tax credit	-	173,419
Brought forward tax losses surrendered for current year profits	(4,421,510)	(904,302)
Unrelieved tax losses	10,462	1,513,796
Current tax credit for the period	-	.(155,723)
Adjustment relating to claims for prior periods	-	(61,874)
Total tax credit for the period	-	(217,597)

The standard rate of UK corporation tax was reduced from 23% to 21% with effect from 1 April 2014, giving rise to an effective rate of tax for the year ended 31 December 2014 of 21.5%.

**(c) Deferred income tax**

The deferred tax asset, calculated at a rate of UK corporation tax of 20% (31 December 2013: 20%), not recognised in the financial statements is as follows:

	<b>31 Dec 2014 £</b>	<b>Restated 31 Dec 2013 £</b>
Decelerated capital allowances/(capital allowances in advance of depreciation)	1,391	2,922
Tax losses available	9,016,442	12,475,190
	<u>9,017,833</u>	<u>12,478,112</u>

The deferred tax asset has not been recognised as there is uncertainty regarding when suitable future profits against which to offset the accumulated tax losses will arise. There is no expiration date for the accumulated tax losses.

The Summer Finance Bill 2015 proposed two changes to the future mainstream corporation tax rate. From 1 April 2017 the rate will reduce from 20% to 19% and from 1 April 2020 the rate will reduce further to 18%. It is estimated that the impact on the unrecognised deferred tax as a result of these rate changes is a reduction in the balance of between £901,644 and £450,822.

**8 PROPERTY, PLANT AND EQUIPMENT**

**31 December 2014**

	<b>Group and Company</b>		<b>Total</b>
	<b>Leasehold improvements</b>	<b>Plant and equipment</b>	
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 2014, net of accumulated depreciation and impairment	-	-	-
Provision for impairment	-	-	-
Depreciation charge for the year	-	-	-
At 31 December 2014, net of accumulated depreciation and impairment	-	-	-
At 1 January 2014			
Cost	-	-	-
Accumulated depreciation and impairment	-	-	-
Net carrying amount	-	-	-
At 31 December 2014			
Cost	-	-	-
Accumulated depreciation and impairment	-	-	-
Net carrying amount	-	-	-

During the year ended 31 December 2014 assets which had an original cost of £356,106 and accumulated depreciation of £356,106 were disposed of for proceeds totalling £6,130, leading to a profit on disposal of £6,130. Following these disposals, there are no assets left in use at 31 December 2014.

**31 December 2013**

	<b>Group and Company</b>		<b>Total</b>
	<b>Leasehold improvements</b>	<b>Plant and equipment</b>	
	<b>£</b>	<b>£</b>	<b>£</b>
At 1 January 2013, net of accumulated depreciation and impairment	72,445	5,937	78,382
Disposals	(49,899)	(1,433)	(51,332)
Depreciation charge for the year	(22,546)	(4,504)	(27,050)
At 31 December 2013, net of accumulated depreciation and impairment	-	-	-
At 1 January 2013			
Cost	218,645	440,230	658,875
Accumulated depreciation and impairment	(146,200)	(434,293)	(580,493)
Net carrying amount	72,445	5,937	78,382
At 31 December 2013			
Cost	218,645	137,461	356,106
Accumulated depreciation and impairment	(218,645)	(137,461)	(356,106)
Net carrying amount	-	-	-

**8 PROPERTY, PLANT AND EQUIPMENT (continued)**

During the year ended 31 December 2013 a provision for impairment was made against all property, plant and equipment in light of proposed surrender of the Group's lease (implemented in June 2014) leading to the write off of leasehold improvements and the disposal of all remaining computer and office equipment.

During the year ended 31 December 2013 assets which had an original cost of £302,769 and accumulated depreciation of £302,769 were disposed of for proceeds totalling £38,122, leading to a profit on disposal of £38,122.

As at 31 December 2013, fully depreciated assets with an original cost of £356,106 were still in use.

The useful life of the assets is estimated as follows:

Leasehold improvements	The shorter of 20 years or the lease term
Plant and equipment	3 to 5 years

**9 INVESTMENTS**

	Company 31 Dec 2014 £	31 Dec 2013 £
Investment in subsidiary company	5,000,002	5,000,002

Name of subsidiary	Country of incorporation	Class of shares held	Proportion held	Activity
MacroTarg Ltd	UK	Ordinary	100%	Research and development

The cost of investment in subsidiary is recorded at fair value on the date of acquisition.

**10 TRADE AND OTHER RECEIVABLES**

	Group 31 Dec 2014 £	31 Dec 2013 £	Company 31 Dec 2014 £	31 Dec 2013 £
Trade receivables	-	226,836	-	226,836
VAT recoverable	-	150,106	-	150,106
Other debtors	176	46,180	176	46,180
Amounts due from subsidiary company	-	-	-	-
	176	423,122	176	423,122

Amounts due from subsidiary company represent an inter-company loan account with the Company's wholly-owned subsidiary company, MacroTarg. The loan carries interest on the average balance outstanding each month at 2% above the base lending rate of Barclays Bank plc. The Company does not have a right to recall the loan except in the event that MacroTarg ceases to be a wholly-owned subsidiary of the Company, in which case the Company has the right to request repayment of the loan on 90 days' notice. The amount due from MacroTarg for the year ended 31 December 2014 of £1,094,479 (year ended 31 December 2013: £2,895,815) has been fully provided for in the Company's accounts since MacroTarg has negative net assets and is therefore judged unlikely to be able to repay the loan balance should it be recalled. The movements on the inter-company loan account were as follows:

**10 TRADE AND OTHER RECEIVABLES (continued)**

	Loan account £	Provision £	Net balance £
At 1 January 2013	3,670,623	(3,670,623)	-
Movement in year	(774,808)	774,808	-
At 31 December 2013	2,895,815	(2,895,815)	-
Movement in year	(1,801,336)	1,801,336	-
At 31 December 2014	1,094,479	(1,094,479)	-

**11 CASH AND SHORT TERM DEPOSITS**

	Group and Company	
	31 Dec 2014	31 Dec 2013
	£	£
Cash at bank and in hand	(1,108)	37
Short term deposits	188,735	193,630
	187,627	193,667

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for periods between one day and twelve months depending upon the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Interest earned is detailed in Note 4.

**12 SHARE-BASED PAYMENT PLANS**

*Enterprise Management Incentive ('EMI') scheme*

All employees of the Group participate in the Company's EMI share option scheme. Options granted under this scheme vest over a period of four years from the commencement date and, to the extent they have vested, are only exercisable in the event of an initial public offering of the Company's shares or trade sale of the Company. The exercise price of the options is the market value of the Company's ordinary shares at the date of grant of the option. The options expire after 10 years from their commencement date. The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	Year ended 31 Dec 2014		Year ended 31 Dec 2013	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the period	2,555,500	£0.19	2,640,500	£0.19
Lapsed during the period	(245,000)	£0.12	-	-
Forfeited during the period	(130,000)	£0.23	(85,000)	£0.24
Outstanding at the end of the period	2,180,500	£0.20	2,555,500	£0.19
Exercisable at the end of the period	-	-	-	-

The options outstanding at 31 December 2014 had a weighted average remaining contractual life of 1.4 years (31 December 2013: 2.2 years) and have exercise prices in the range £0.12 to £0.40 per share (31 December 2013: £0.12 to £0.40 per share). Included within the outstanding options are 282,500 options issued to former directors of the Company on an unapproved basis under the rules of the EMI scheme.

The fair value of options is measured at the date of grant using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The Company did not grant any options during the current or prior financial year.

**12 SHARE-BASED PAYMENT PLANS (continued)**

The Group does not have any historical data relating to the expected period to exercise of the options and therefore has estimated this based upon industry experience, with a 7 year period assumed for senior management and a 5 year period assumed for all other employees. The expected volatility has been estimated based upon historical data from companies with a similar profile in the biotechnology sector. The risk free interest rate represents a weighted average of the yield for gilts issued by the UK government at the date of grant of each option. The weighted average share price is determined by performing a share valuation at the date of grant of the options. The expense calculation includes an allowance for forfeiture of 10% of the total share options granted other than to senior management, for which the forfeiture rate is estimated as 0%. The fair value calculation does not include any allowance for dividends as the Company has no available profits for distribution.

The credit to the statement of profit or loss and other comprehensive income arising from reversal of previous charges arising from employees leaving the Group before options have vested is detailed in Note 4.

**13 ISSUED CAPITAL AND RESERVES**

**Authorised capital**

	31 Dec 2014 Number	31 Dec 2013 Number	31 Dec 2014 £	31 Dec 2013 £
Ordinary shares of £0.001 each	6,900,000	6,900,000	6,900	6,900
Convertible preferred ordinary shares of £0.001 each	13,000,000	13,000,000	13,000	13,000
B-1 convertible preferred ordinary shares of £0.001 each	3,875,969	3,875,969	3,876	3,876
C convertible preferred ordinary shares of £0.001 each	22,500,000	22,500,000	22,500	22,500
D convertible preferred ordinary shares of £0.001 each	8,571,428	8,571,428	8,571	8,571
			<u>54,847</u>	<u>54,847</u>

**Issued capital**

	31 Dec 2014 Number	31 Dec 2013 Number	31 Dec 2014 £	31 Dec 2013 £
<b>Issued and fully paid:</b>				
Ordinary shares of £0.001 each	1,557,200	1,557,200	1,557	1,557
A ordinary shares of £0.001 each	700,000	700,000	700	700
B ordinary shares of £0.001 each	450,000	450,000	450	450
C ordinary shares of £0.001 each	200,000	200,000	200	200
E ordinary shares of £0.001 each	190,000	190,000	190	190
A convertible preferred ordinary shares of £0.001 each	1,766,874	1,766,874	1,767	1,767
B convertible preferred ordinary shares of £0.001 each	10,629,340	10,629,340	10,629	10,629
B-1 convertible preferred ordinary shares of £0.001 each	3,875,969	3,875,969	3,876	3,876
C convertible preferred ordinary shares of £0.001 each	22,058,823	22,058,823	22,059	22,059
D convertible preferred ordinary shares of £0.001 each	8,571,428	8,571,428	8,571	8,571
			<u>49,999</u>	<u>49,999</u>

**13 ISSUED CAPITAL AND RESERVES (continued)**

*Ordinary shares*

The Articles of Association allow for the sub-categorisation of the Company's ordinary shares into A, B, C, D, or E ordinary shares. These sub-classes have rights identical to the ordinary shares other than being subject to a vesting period of between 13 months and 59 months from the vesting commencement date. As at 31 December 2014 and 31 December 2013 there were no ordinary shares that had not yet vested. The shares issued subject to vesting can be repurchased by the Company at the original subscription price if the employee leaves employment prior to vesting. Although such an arrangement has the characteristics of an early-exercised share option, no compensation charge on such share arrangements has been recorded as it is immaterial over the vesting period. The unvested shares have been reflected as issued share capital in the balance sheet and not included in the share option data disclosed in Note 12.

The Company did not issue any ordinary shares during the years ended 31 December 2014 and 31 December 2013.

The Company has reserved 3,130,000 ordinary shares (2013: 3,130,000 ordinary shares) for issue under options (see Note 12), of which 2,185,500 options were issued and outstanding at 31 December 2014 (31 December 2013: 2,555,500).

*Convertible preferred ordinary shares*

The convertible preferred ordinary shares carry the right to receive a fixed non-cumulative dividend payable semi-annually, to the extent that the Company has distributable reserves, at the rate of 7% per annum on the subscription price for the A convertible preferred ordinary shares and 8% per annum on the subscription price for the B, B-1, C and D convertible preferred ordinary shares. Each convertible preferred ordinary share can be converted to one ordinary share automatically upon the flotation or initial listing of the Company on a stock exchange. Upon a liquidation or sale of the Company where the proceeds are below the subscription price of the convertible preferred ordinary shareholders, those shares become participating shares in that the distribution of any proceeds after settling arrears of dividends will be applied firstly in returning the capital subscribed by the convertible preferred ordinary shareholders, with the balance being distributed amongst the ordinary and convertible preferred ordinary shareholders as if conversion to ordinary shares had taken place. In the event that new shares are issued for consideration less than their respective subscription prices, the B, B-1, C and D convertible preferred ordinary shareholders are entitled to a bonus issue of shares. In all other respects the ordinary and convertible preferred ordinary shares rank *pari passu*. The convertible preferred ordinary shares are classified as equity based on analysis of the terms described above.

During the financial years ended 31 December 2014 and 31 December 2013, the Company did not issue any new convertible preferred ordinary shares.

**Nature and purpose of other reserves**

'Other reserves' of £203,281 (year ended 31 December 2013: £224,913) comprises the cumulative charge for share options issued under the Company's EMI share option scheme (see Note 12).

**14 WARRANTS**

The fair value of a warrant is measured at the date of issue using the Black-Scholes pricing model, taking into account the terms and conditions upon which the warrant was granted.

During the year ended 31 December 2010, the Company issued a warrant instrument to subscribe for preferred shares in the Company to Hercules Technology Growth Capital ("Hercules") (see Note 17). The amount of shares subscribable under the warrant instrument is calculated as 8% of the value of the secured loan provided by Hercules (i.e. \$800,000) divided by the lower of £1.75, the price of the last financing round, and the price of the Company's next bona fide financing round. The type of shares issuable under the warrant instrument are D convertible preferred ordinary shares or, in case the company issues a new class of shares under a new financing round, such new class of shares at the option of Hercules. Since, at the time of issue of the warrants, the relevant subscription price of the lower of £1.75 and the price of the Company's next bona fide financing round is considered by the directors to represent the fair value of D convertible preferred ordinary shares at that date, and the warrant instrument is not in return for services nor linked to the secured loan, no accounting arises on issue or throughout the life of the warrant instrument.

As at 31 December 2014 there were 249,999 unexpired warrants to subscribe for C convertible preferred ordinary shares at a price of £1.35 per share (31 December 2013: 249,999 unexpired warrants to subscribe for C convertible preferred ordinary shares at a price of £1.35 per share) and 325,261 unexpired warrants to subscribe for D convertible preferred ordinary shares at a price of £1.75 per share (31 December 2013: 325,261 unexpired warrants to subscribe for D convertible preferred ordinary shares at a price of £1.75 per share).

**15 TRADE AND OTHER PAYABLES**

	<b>Group and Company</b>	
	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	<b>£</b>	<b>£</b>
Trade payables	3,540	347,062
Taxation and social security	8,340	16,495
VAT payable	54,497	-
Other payables and accruals	679,749	952,880
	<u>746,126</u>	<u>1,316,437</u>

Other payables and accruals include outstanding contributions payable to the defined contribution pension scheme of £666 (31 December 2013: £5,321).

The terms and conditions of the above financial liabilities are as follows:

- Trade payables are non-interest bearing and are settled based upon pre-agreed credit terms, typically within 30 days from the date of the invoice
- Taxation and social security creditors and contributions payable to the defined contribution pension scheme are non-interest bearing and are due during the month following payment of the salaries to which they relate
- Other payables are non-interest bearing and primarily comprise accruals for liabilities incurred but not yet invoiced

**16 DEFERRED INCOME**

	<b>Group and Company</b>	
	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
	<b>£</b>	<b>£</b>
Research and development collaboration income:		
• At 1 January	1,847,257	2,287,367
• Released to the statement of profit or loss and comprehensive income	(1,847,257)	(440,110)
	<u>-</u>	<u>1,847,257</u>
Of which:		
• Current portion	-	440,110
• Non-current portion	-	1,407,147
	<u>-</u>	<u>1,847,257</u>

Details of income released to the statement of profit or loss and other comprehensive income are shown in Note 4.

**17 SECURED LOAN**

On 26 April 2010 the Group entered into an agreement with Hercules Technology Growth Capital ('Hercules') for a secured loan of up to \$15,000,000, of which \$10,000,000 was drawn down. The loan was repaid in full on 11 December 2013. Interest payable on the loan for the year ended 31 December 2013 is detailed in Note 4.

**18 UNSECURED LOAN**

On 20 January 2012 the Group entered into an agreement for the issue of non-convertible, non-interest bearing, redeemable loan notes ('Loan Notes') up to a value of £6,000,000 to its existing investors ('First Tranche Loan Notes'). The First Tranche Loan Notes are subordinated to the Hercules secured loan (see Note 17) and are repayable at a premium ranging between 300% to 500% of the principal value upon the earlier of a sale of the Group or 20 January 2014. The full £6,000,000 in value of First Tranche Loan Notes was issued during 2012. On 15 August 2012 the loan note agreement was extended to allow an additional £2,000,000 of Loan Notes to be issued ('Second Tranche Loan Notes'). The Second Tranche Loan Notes are senior to the First Tranche Loan Notes and are repayable at a premium of 500% of the principal value upon the earlier of a sale of the Group or 20 January 2014. On 31 May 2013 the Loan Note holders agreed to extend the repayment date to 20 January 2015 and on 28 November 2014 the Loan Note holders agreed to extend the repayment date to 20 January 2016.

Up until the first extension of the unsecured loan notes on 31 May 2013 the redemption premium on the Loan Notes was treated as interest and was amortised on an effective interest basis over the period of the loan notes to the original repayment date of 20 January 2014. For the year ended 31 December 2013 (as restated: see Note 24) £6,112,176 was recognised as a component of finance expense in the statement of profit or loss and other comprehensive income (see Note 4). As at 31 May 2013, the original loan was treated as extinguished under IAS39, with the amended loan being recorded at fair value, estimated by the directors to be the net cash receipts from the sale of CTI shares applied to the retirement of the unsecured loan notes during 2015 of £12,147,550, discounted back from 20 January 2015 to 31 May 2013 at an annual interest rate of 0.75%. The gain on extinguishment during the year ended 31 December 2013 (as restated) of £10,597,442 has been treated as finance revenue (see Note 4). Following extinguishment of the loan, the accretion of the amended loan from its fair value to the future contractual repayment amount of £32,090,000 has been calculated on a straight-line basis to the revised repayment date of 20 January 2015, giving rise to an accretion charge for the year ended 31 December 2013 (as restated) of £7,170,000, which has been recorded as a finance expense (see Note 4).

**18 UNSECURED LOAN (continued)**

During the year ended 31 December 2014, accretion of the loan to the repayment amount of £32,090,000 on a straight-line basis to a repayment date of 20 January 2015 continued until the loan was extended on 28 November 2014. At this date, the loan was treated as extinguished and was recorded at fair value, again estimated by the directors to be the net cash receipts from the sale of CTI shares applied to the retirement of the unsecured loan notes during 2015 of £12,147,550, this time discounted back from 20 January 2016 to 28 November 2014 at an annual interest rate of 0.75%. The gain on extinguishment during the year ended 31 December 2014 of £18,257,445 has been treated as finance revenue (see Note 4). Following extinguishment of the loan, accretion of the amended loan from its fair value to the future contractual repayment amount of £32,090,000 has been calculated on a straight-line basis to the revised repayment date of 20 January 2016. The total amount recorded under finance expenses as accretion for the year ended 31 December 2014 was £12,705,120.

Movements in the unsecured loan during the year were as follows:

	<b>Group and Company 31 Dec 2014 £</b>	<b>Restated Group and Company 31 Dec 2013 £</b>
Unsecured loan at beginning of period	19,190,700	16,505,966
Amortisation of redemption premium on unsecured loan	-	6,112,176
(Gain) on extinguishment of unsecured loan	(18,257,445)	(10,597,442)
Accretion of unsecured loan to repayment amount	12,705,120	7,170,000
Unsecured loan at end of period	<u>13,638,375</u>	<u>19,190,700</u>

As detailed in Note 22 'Events after the end of the reporting period', subsequent to the year end the Loan Note holders agreed to extend the repayment date to 20 January 2018 with no change to the repayment amount.

**19 PROVISIONS**

The financial statements for the year ended 31 December 2013 contain a provision for the proportion of future lease payments relating to the unoccupied part of the facility which is available to let up to the date of the surrender of the lease, less the minimum committed sub-lease income to that date. The net liability has been discounted, using a risk-free interest rate of 0.85%, in order to estimate a present value for these liabilities as at 31 December 2013. The balance of the provision was utilised during the year ended 31 December 2014 following the Group's surrender of the lease on 24 June 2014 for a one-off payment of £340,000 operating lease expenditure in the statement of profit or loss and other comprehensive income. The movement in the provision is as follows:

	<b>Group and Company 31 Dec 2014 £</b>	<b>Group and Company 31 Dec 2013 £</b>
Provision for onerous lease payments:		
• Brought forward	388,169	1,620,840
• Utilised in year	(388,169)	(323,754)
• Released unutilised in year	-	(908,917)
	<u>-</u>	<u>388,169</u>

## 20 OTHER FINANCIAL COMMITMENTS

### *Operating leases – Group as lessee*

The Group surrendered the lease for its premises at 93 Milton Park on 24 June 2014. The future minimum rental payable for the prior year were:

	Land and buildings 31 Dec 2014	Land and buildings 31 Dec 2013
	£	£
Not later than one year	-	557,777
Later than one year and not later than five years	-	1,147,110
Later than five years	-	-
	<u>-</u>	<u>1,704,887</u>

The Group does not have any other operating leases.

### *Finance leases – Group as lessee*

The Group did not have any leasing arrangements classifying as finance leases at 31 December 2014 or 31 December 2013.

### *Capital commitments*

Contracted for capital commitments as at 31 December 2014 amounted to £nil (31 December 2013: £nil).

## 21 RELATED PARTY TRANSACTION DISCLOSURES

Funds managed by Abingworth Management Limited ("Abingworth") held shares in the Company and unsecured loan notes as at 31 December 2014. T J Haines is a director of Abingworth and has a financial interest in Abingworth's funds.

Funds managed by Essex Woodlands Health Ventures ("Essex") held shares in the Company and unsecured loan notes as at 31 December 2014. T Sykes is a director of Essex and has a financial interest in Essex's funds.

Compensation of key management personnel of the Company is detailed in Note 6. Director's interests in employee share option schemes are detailed in the Directors' Report.

## 22 EVENTS AFTER THE END OF REPORTING PERIOD

As at the date of signing these financial statements, loan notes with a redemption value to £12,147,550 had been retired following sale of the CTI shares and distribution of the cash proceeds to the loan note holders. During January 2016 the Loan Note holders agreed to extend the repayment date of the balance of loan notes to 20 January 2018 with no change to the repayment amount.

## 23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

In line with similar companies in the biotechnology sector, the Group derives long-term financing through the sale of technologies, the issue of new equity and loan financing. The Group's principal financial instruments other than its unsecured loan notes comprise trade payables and trade receivables which arise directly from its operations and are not designed as a means of raising finance for the Group's operations and available-for-sale investments received as consideration for the sale of technologies. The Group has various financial assets such as receivables and cash and short-term deposits, which arise directly from its operations. The Group does not consider that its financial instruments gave rise to any material financial risks during the financial years ended 31 December 2014 and 31 December 2013, other than foreign currency risk arising from the shares in CTI which are held for resale. An overview of areas of potential risk are summarised below.

**23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY (continued)**

*Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to its finance income from its cash at bank and short-term deposits (see Note 11). The Group's cash and short-term deposits are largely sterling denominated; interest earned is therefore influenced by the Bank of England base interest rates and will depend on the remaining duration of any fixed-rate treasury deposits placed at the time of any rate change and the average cash and cash equivalents for the remainder of the financial year following the change. The interest rate profile of the Group's financial assets and liabilities is as follows:

	31 Dec 2014			31 Dec 2013		
	Floating	Fixed	Total	Floating	Fixed	Total
	£	£	£	£	£	£
Cash and short term deposits	187,627	-	187,627	193,667	-	193,667

Unsecured loan notes outstanding at 31 December 2014 and 2013, together have a fixed repayment amount of £32,090,000, including the redemption premium which is treated as finance over the period of the loan.

*Foreign currency risk*

The Group does not have any overseas operations and therefore does not have any exposure to the retranslation of the assets and liabilities of overseas operations. During the year ended 31 December 2014 the Group received shares in CTI, a NASDAQ listed company, as consideration for the sale of all of its right to tosedostat. The shares are being held for resale. The Group was unable to hedge this exposure given the uncertainty as to when shares would be sold. There were no outstanding forward exchange contracts at 31 December 2014. The Group does not envisage that it will require any hedging arrangements in future given the limited nature of its operations.

The aggregate carrying amount of foreign currency denominated monetary assets and liabilities held by the Group and company, which are not denominated in functional currency, as at the end of the reporting period are as follows:

	31 Dec 2014		31 Dec 2013	
	Assets	Liabilities	Assets	Liabilities
	£	£	£	£
US dollar (\$)	21,275,504	-	161,086	-
Euro (€)	-	7,827	279	10,469
	21,275,504	7,827	161,365	10,469

The following table illustrates the sensitivity to a reasonably possible change in the currencies above, compared to sterling, of the Group's loss before tax due to the changes in the fair value of monetary assets and liabilities. A positive value indicates a decrease in the Group's loss before tax:

	Change in rate	31 Dec 2014	31 Dec 2013
		£	£
US dollar	+5%	(650,019)	(7,671)
	-5%	718,442	8,478
Euro	+5%	373	486
	-5%	(411)	(536)

**23 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY (continued)**

*Credit risk*

The sole revenues of the Group during the financial years ended 31 December 2014 and 31 December 2013 were recognition of milestone payments, signature fees, fees relating to the sale of technology and research and development collaboration income from the arrangements with GSK, CRTPF and CTI, all of which have been settled in cash or readily tradeable securities (see Note 4); consequently the Group did not have any exposure to trade credit risk during this financial year. With respect to credit risk arising from the other financial assets of the Group, which primarily comprise cash and short-term deposits, the exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these investments. The Group has in place investment guidelines outlining authorised counterparties in order to minimise such risk.

*Liquidity risk*

The Group monitors its funding requirements through preparation of short-term, mid-term and long-term forecasts. All short-term deposits are immediately convertible to liquid funds without penalty and are recorded in the balance sheet at their open market value. Please refer to Note 2 "Going Concern" regarding the Directors' assessment of liquidity for further information.

*Capital management*

In line with similar companies in the biotechnology sector at a similar stage of development, the Group is loss-making and does not have any significant trading revenues. Reflecting this, the Group funds its operations through a combination of equity issuance to and unsecured loan financing from its equity investors, secured venture loan financing, and government grants and also through funds generated by technology or product licensing activities and manages such activities to avoid breaching the conditions attached to its secured loan (Note 17). In light of its ongoing funding requirements, the Group does not have a policy of paying dividends to shareholders except for potential payments to holders of the Company's convertible preferred ordinary shares as permitted in its Articles of Association (Note 13).

**24 PRIOR YEAR ADJUSTMENT**

The Group has recorded a prior year adjustment for the correction of a material error in respect of accounting for the unsecured loan notes. In May 2013 the Loan Note holders agreed to extend the repayment date of the unsecured loan to 20 January 2015: under IAS39, this extension represents an extinguishment of the original loan and recognising the amended loan arrangement.

Following its extinguishment, the loan has been recorded at fair value, estimated by the directors to be the net cash receipts from the sale of CTI shares applied to the retirement of the unsecured loan notes during 2015 of £12,147,550 discounted back at an annual interest rate of 0.75%. The loan has then been accreted to the repayment amount over the relevant period of repayment. The error overstated the loss before taxation for the year ended 31 December 2013.

*Adjustments recorded to 31 December 2013 comparative financial statements*

(a) Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2013

Finance revenue was increased by £10,597,442.

Finance expenses were increased by £7,374,681.

Loss before taxation and total comprehensive expense for the year decreased by £3,222,761.

(b) Balance sheet at 31 December 2013

Accumulated losses reduced by £3,222,761.

The unsecured loan notes liability reduced by £3,222,761.

There was no overall impact on total assets.