



SPHERETM

Critical Results *Quicker*TM



Sphere Medical Holding Limited

(formerly Sphere Medical Holding plc)

Financial Statements for the year ended 31 December 2017

Registered in England, number 4179503

CONTENTS	Page
Strategic Report	3
Directors' Report	5
GROUP FINANCIAL STATEMENTS	
Independent Auditor's report on Group financial statements	8
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Cash Flow	12
Consolidated Statement of Changes in Equity	13
Notes to the Group financial statements	14
COMPANY FINANCIAL STATEMENTS	
Independent auditor's report on Company financial statements	39
Company Balance Sheet	41
Company Statement of Changes in Equity	42
Notes to the Company financial statements	43
OTHER INFORMATION	
Advisors and Registrars	51

Strategic Report



INTRODUCTION

Sphere Medical secured £5.1m of additional equity investment in 2017. We are pleased to report that the implementation of the strategy is proceeding well and in line with the plans set out in the circular published in August 2017.

STRATEGY

Development of an automated version of Proxima both enables the Company to simplify the route to obtaining FDA approval in the US, the largest global market, and significantly improve the usability of the system. This should have a significant positive impact on shareholder value.

The development activities will significantly expand the addressable market for Proxima to US\$2bn and growing at 10% per annum.

PRODUCT DEVELOPMENT

Development of Proxima is progressing well.

COMMERCIALISATION

During the development phase of the automated Proxima, Sphere is continuing to work with a small number of hospitals and connecting the CE-marked Proxima to patients. This enables the Company to continue to build real-world experience with the product and to gather feedback on the system.

By the end of 2017 more than 200 patients had been connected to Proxima devices and clinician feedback confirmed the benefits of the system.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are outlined below.

<i>Risk or uncertainty</i>	<i>Comment</i>
Proxima does not gain commercial traction	<ul style="list-style-type: none">• The first sales have already been achieved• Feedback from many potential customers has been positive
Development risk: upgrades and enhancements such as the addition of lactate to the panel do not function as intended or do not pass CE marking	<ul style="list-style-type: none">• Proxima 3 and Proxima 4 were successfully developed and CE marked• The planned upgrades and enhancements involve less technical risk than the development in Proxima 3 and Proxima 4• There is good knowledge and experience within the Group of the development process
The Group's cash resources are exhausted before it becomes cash generative	<ul style="list-style-type: none">• The Group has successfully raised additional finance on several occasions in the past
The departure of the UK from the EU may impact on regulatory approval for Proxima in the UK, EU or both, or may affect costs for Sphere	<ul style="list-style-type: none">• It is possible there will be grandfathering arrangements for existing regulatory approvals• It may be possible for Sphere to reorganise elements of its supply chain to reduce the impact of any additional costs

FINANCIAL REVIEW

Revenue for the year ended 31 December 2017 was £3,000 (2016: £30,000).

Underlying operating expenses were £5.6 million (2016: £5.1 million) and non-recurring operating expenses were £4.4 million (2016: £nil). Selling and marketing expenses for the year were £1.0 million (2016: £1.3 million). Underlying production expenses were £1.3 million (2016: £1.4 million) and there was a £0.8 million non-recurring cost in production expenses writing off all the inventory held. Underlying research and development costs increased from £0.7 million in 2016 to £1.8 million in 2017 as development costs capitalisation stopped part way through the year. In addition there

Strategic Report



was a £3.6 million charge to write-off the previously capitalised development costs. Underlying administrative costs reduced from £1.7 million in 2016 to £1.5 million in 2017.

Finance income was £0.2m (2016: £0.1m), while interest payable and similar charges were £0.3m (2016: £0.2m), being £0.2m in respect of interest on the loan from Silicon Valley Bank and £0.1m coupon on the Convertible Preference Shares.

During the year, £0.6 million was received in respect of research and development tax claims for 2016 (2016: £0.6 million based on 2015 claims). No accrual has been made for any research and development tax claim for the 2017 year.

The post-tax loss for the year was £9.6 million (2016: £4.5 million).

Cash and short-term investments as at the end of the year were £3.2 million (2016: £3.2 million). In January 2017 a £1.5 million bank loan was put in place. In September and October 2017 a £5.1 million equity fundraising was carried out, shortly after the Company had delisted from AIM. At the same time £8.0m of warrants were issued to participants in the fundraising.

THE TEAM AT SPHERE MEDICAL

After close to four years at Sphere Medical and having successfully secured the future of the Company as a privately held entity, in October 2017 Wolfgang Rencken stepped down as Chief Executive Officer to spend more time back in Germany with his family. The Board would like to take this opportunity to thank Dr Rencken for his tremendous contributions to the Company, his strategic vision and hard work to transform and guide the Company during his time in office and wish him all the best of success and happiness in his future pursuits.

Luciën van Os, who had been the Company's Chief Operating Officer since 2015, was appointed as Chief Executive Officer in October 2017.

Also stepping down from the Board in October 2017 was John Gregory, who retired as a Non-Executive Director after eight years. The Board would like to thank Mr Gregory for his valuable contribution to the Company.

Dr David Martyr has indicated his intention to stand down as Non-Executive Chairman on 31 March 2018 due to other work commitments. Meinhard Schmidt has been appointed to take over as Non-Executive Chairman from 1 April 2018.

Sphere Medical continues to benefit from the hard work and expertise of its employees who, with the Board, are fully committed to the success of Proxima. The Board would like to take this opportunity to thank all our employees for their continued commitment.

Luciën van Os
Director

Richard Wright
Director

Directors' Report



The Directors present their annual report on the affairs of the Company and the Group, together with the audited financial statements for the year ended 31 December 2017.

Corporate Governance

There is a list of matters reserved for the Board and this list is available on the Company's website.

The Board delegates day-to-day management of the business to the Management Team, which comprises: the Chief Executive Officer, the Chief Financial Officer, the VP Quality and Regulatory Affairs and the Human Resources Business Partner.

The Board has an Audit Committee, Nominations Committee and Remuneration Committee, each with written terms of reference. The terms of reference are available on the Company's website. Each Committee reports to the Board on its activities.

The Audit Committee comprises Stephen Mahle and Brenig Preest. The Chief Executive Officer and Chief Financial Officer are normally invited to attend meetings.

The Remuneration Committee comprises Stephen Mahle, Brenig Preest and Meinhard Schmidt. It is chaired by Stephen Mahle. The Chief Executive Officer is normally invited to attend meetings.

The Nominations Committee comprises Dr David Martyr, Brenig Preest and Meinhard Schmidt. It is chaired by Dr David Martyr.

The Company Secretary acts as secretary to each of the Board committees.

Results and Dividends

The consolidated statement of comprehensive income is set out on page 10 and shows the loss for the year. The loss for the year ended 31 December 2017 was £9.6 million (2016: loss of £4.5 million). No dividend will be paid in respect of the year (2016: £nil). A Convertible Preference Share coupon of £0.1m (2016: £nil) has been accrued.

Directors

The Directors of the Company who served during the year and up to the date of this report were:

Director	Position
Dr D R Martyr	Non-Executive Chairman
Mr Luciën van Os	Chief Executive Officer (appointed 12 October 2017)
Mr R D Wright	Chief Financial Officer
Mr S H Mahle	Non-Executive
Mr B G Preest	Non-Executive representative of Arthurian Life Sciences Limited
Mr M F Schmidt	Non-Executive
Dr W D Rencken	Chief Executive Officer (resigned 19 October 2017)
Mr J H Gregory	Non-Executive (resigned 19 October 2017)

There have been no changes to the Board since the year end.

Mr Richard Wright is also Company Secretary.

Directors' Report



Going concern

Having regard to the available cash resources, tight financial control, budgets and forecasts for 2018 and beyond, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group financial statements. The Directors draw your attention to the section headed 'Going concern' in Note 2 to the Group financial statements. The conditions explained in Note 2 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would occur if the Group were unable to continue as a going concern.

Independent auditor

The auditor, who was reappointed at the Annual General Meeting is Grant Thornton UK LLP. The Directors will place a resolution before the Annual General Meeting to reappoint Grant Thornton UK LLP as auditor for the ensuing year.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

United Kingdom company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the consolidated accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and elected to prepare the Company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws including FRS101 Reduced Disclosure Framework). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed in the parent company financial statements and IFRSs have been followed in the Group financial statements subject to any material departures disclosed and explained; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Website publication

The Directors are responsible for maintenance and integrity of the corporate and financial information included on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may differ from legislation in other jurisdictions.

Risk Management

Details of the Group's financial risk management objectives and policies, and exposure to price risk, credit risk and liquidity risk are set out in Note 26.

Directors' Report



Statement as to disclosure of information to auditors

The Directors, in office at the date of this Report, have confirmed that:

- so far as each of the Directors is aware, there is no relevant audit information of which the auditor is unaware; and
- each Director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Company auditor is aware of that information.

This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board

Richard Wright

Company Secretary

15 March 2018



Independent Auditor's Report to the members of Sphere Medical Holding Limited

Opinion

We have audited the group financial statements of Sphere Medical Holding Limited for the year ended 31 December 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's affairs as at 31 December 2017 and its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Material uncertainty related to going concern

We draw your attention to note 2 in the financial statements which indicates that the group will require further funding to continue its commercial operations in accordance with its strategy. The group incurred a net loss of £9,559,000 during the year ended 31 December 2017 while the cash outflow from operating activities was £4,966,000 resulting in a year end cash balance of £3,172,000. These conditions, along with the matters explained in note 2 to the group financial statements indicate the existence of a material uncertainty which may cast doubt on the group's ability to continue as a going concern. The financial statements do not include the adjustments that would occur if the group was unable to continue as a going concern.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report to the members of Sphere Medical Holding Limited



Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the group, or returns adequate for our audit have not been received from branches not visited by us; or
- the group's 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

David Newstead
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

16 March 2018

Consolidated statement of comprehensive income for the year ended 31 December 2017



	Notes	2017 Underlying £000	2017 Non- recurring (Note 10) £000	2017 Total £000	2016 £000
Revenue	4	3	-	3	30
Cost of sales		(24)	-	(24)	(20)
Gross (loss)/profit		(21)	-	(21)	10
Selling and marketing expenses	5	(1,030)	-	(1,030)	(1,327)
Production overheads	5	(1,299)	(760)	(2,059)	(1,392)
Product development	5	(1,758)	(3,578)	(5,336)	(727)
Administrative expenses	5	(1,545)	(91)	(1,636)	(1,705)
Operating expenses		(5,632)	(4,429)	(10,061)	(5,151)
Operating loss		(5,653)	(4,429)	(10,082)	(5,141)
Finance income	6	208	-	208	72
Interest payable and similar charges	6	(292)	-	(292)	-
Loss before taxation		(5,737)	(4,429)	(10,166)	(5,069)
Tax credit	9	607	-	607	556
Loss and total comprehensive income for the period attributable to the equity holders of the parent		(5,130)	(4,429)	(9,559)	(4,513)

All amounts derive from continuing operations.

The accompanying notes form an integral part of this consolidated statement of comprehensive income.



Consolidated statement of financial position at 31 December 2017

	Notes	2017 £000	2016 £000
ASSETS			
Non-current assets			
Property, plant and equipment	11	258	189
Intangible assets	12	1	2,928
		<u>259</u>	<u>3,117</u>
Current assets			
Inventories	14	-	427
Trade and other receivables	15	85	181
Cash and cash equivalents		3,172	3,241
		<u>3,257</u>	<u>3,849</u>
Total assets		<u>3,516</u>	<u>6,966</u>
EQUITY			
Called up share capital	20	1,418	1,418
Share premium account		58,031	58,031
Other reserve		-	2,705
Profit and loss account		(64,588)	(55,945)
Total equity		<u>(5,139)</u>	<u>6,209</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	687	757
Loans and borrowings	17	563	-
Derivative financial instruments	19	1,624	-
		<u>2,874</u>	<u>757</u>
Non-current liabilities			
Loans and borrowings	17	957	-
Convertible preference shares	20	4,755	-
Derivative financial instruments	19	57	-
Obligations under finance leases	18	12	-
		<u>5,781</u>	<u>-</u>
Total liabilities		<u>8,655</u>	<u>757</u>
Total equity and liabilities		<u>3,516</u>	<u>6,966</u>

The accompanying notes are an integral part of this consolidated statement of financial position.
Approved and authorised for issue by the Board on 15 March 2018 and signed on its behalf:

Luciën van Os
Director

Company number 4178503

Richard Wright
Director



Consolidated statement of cash flow for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Operating activities	21	(4,966)	(4,521)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(171)	(183)
Purchase of intangible assets	12	(1,032)	(2,089)
Loss on disposal of property, plant and equipment		2	5
Interest received	6	1	72
		(1,199)	(2,195)
Cash flows from financing activities			
Issue of share capital	20	5,077	-
Issue expenses		(322)	(71)
Bank loan		1,500	-
Interest paid		(159)	-
		6,096	(71)
Net change in cash and cash equivalents in the year		(69)	(6,787)
Cash and cash equivalents at beginning of year		3,241	10,028
Cash and cash equivalents at end of year		3,172	3,241

The accompanying notes are an integral part of this consolidated statement of cash flow.



Consolidated statement of changes in equity

For the year ended 31 December 2017

	Share capital (Note 20) £000	Share premium £000	Other reserve £000	Retained loss £000	Total equity £000
Balance as at 31 December 2015	1,418	58,102	2,786	(51,693)	10,613
Loss for the year ended 31 December 2016	-	-	-	(4,513)	(4,513)
Total comprehensive income for the period	-	-	-	(4,513)	(4,513)
Issue expenses	-	(71)	-	-	(71)
Employee share-based compensation	-	-	180	-	180
Reclassification following lapse of options	-	-	(261)	261	-
Transactions with owners	-	(71)	(81)	261	109
Balance as at 31 December 2016	1,418	58,031	2,705	(55,945)	6,209
Loss for the year ended 31 December 2017	-	-	-	(9,559)	(9,559)
Total comprehensive income for the period	-	-	-	(9,559)	(9,559)
Issue of warrants	-	-	-	(1,889)	(1,889)
Employee share-based compensation	-	-	100	-	100
Reclassification following lapse of options	-	-	(2,805)	2,805	-
Transactions with owners	-	-	(2,705)	916	(1,789)
Balance as at 31 December 2017	1,418	58,031	-	(64,588)	(5,139)

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Notes to the financial statements



1. General information

Sphere Medical Holding Limited (the "Company" or "Sphere Medical") and its subsidiaries (together the "Group") undertake research and development and the manufacture and sale of products within the medical device area. The Group has manufacturing facilities in the UK and seeks to commercialise its technology and products within the UK and other countries.

The Company is a private limited company and is registered in England and Wales. The address of its registered office is Unit 1, Ffordd Richard Davies, St Asaph Business Park, St Asaph, LL17 0LJ.

On 20 September 2017 the Company de-listed from the AIM market of the London Stock Exchange plc and on 20 October 2017 the Company re-registered as a private company and changed its name from Sphere Medical Holding plc to Sphere Medical Holding Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 March 2018.

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These financial statements are presented in pounds sterling (GBP) because that is the currency of the primary economic environment in which the Company and its subsidiary operate.

Going concern

At 31 December 2017 the cash balance available to the Group was £3.2m while for the year the cash outflow from operating activities was £5.0m.

During 2017 the Group adopted a revised strategy in which commercial activities were significantly curtailed for the time being and focus was concentrated on developing an automated version of Proxima for launch in Europe and the US. The Group's revenues from sales of products are not expected to be sufficient for the Group to become cash generative from commercial operations over the next 12 months. The Company needs to raise additional finance and has a good track record of being able to do so when it has needed to do so.

The Board of Directors has concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nonetheless, with £3.2m of cash as at 31 December 2017, a clear 2018 budget approved by the Board of Directors, a strong business plan for the next several years and the Group's track record of raising additional finance, the Board of Directors have reasonable expectation that the business will be able to continue in operation for at least 12 months from the date of approval of these financial statements. For these reasons, the Board of Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

Notes to the financial statements



3. Principal accounting policies

The principal accounting policies applied in the preparation of these Group financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

New accounting standards and interpretations

Standards and interpretations which came into effect during the year had no material impact on the Group's financial statements in this period of initial application.

New standards and interpretations not applied

The IASB and IFRIC have issued a number of standards and interpretations with an effective date after the date of these financial statements:

Standard or interpretation		Effective for reporting periods starting on or after
IFRS 9	Financial Instruments	Effective 1 January 2018
IFRS 15	Revenue from Contracts with Customers	Effective 1 January 2018
IFRS 16	Leases	Effective 1 January 2019

The Directors do not believe that the adoption of any of the above standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Basis of consolidation

The Group financial statements incorporate the financial statements of Sphere Medical Holding Limited and its subsidiary undertakings made up to 31 December each year. Subsidiary undertakings are entities over which the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group can direct decisions through the voting rights granted by shares which impacts its returns. Unrealised gains and losses on internal transactions between the Company and its subsidiary undertakings are eliminated on consolidation.

Revenue recognition

Revenue represents the fair value of amounts received or receivable for product sales and services provided and royalties earned, net of trade discounts, VAT and other sales-related taxes. The Group's policy is to recognise revenue when:

- there is persuasive evidence that an arrangement exists;
- pricing is fixed or determinable;
- delivery has occurred or services have been provided to the customer;
- collectability is probable; and
- there are no material outstanding conditions or contingencies attaching to the receipt of monies due.

Product sales – Revenue is recognised on delivery of product, ensuring the full specification is satisfied in accordance with the customer's order.

Notes to the financial statements



Share-based payment transactions

The Company issues equity-settled share-based payments to several of its Directors, as well as employees (including Directors) of its subsidiary, Sphere Medical Limited. In accordance with IFRS 2, for all grants of share options and awards the cost of the equity-settled share-based payments are measured at fair value at the date of grant. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. That fair value is expensed on a straight-line basis over the vesting period for the related options based upon the Company's estimate of the shares that will eventually vest, with a corresponding credit to "other reserves".

A modification to a share option is accounted for by continuing with the existing accounting for the old option scheme and in addition recognising the increment in fair value of the new option scheme over the vesting periods. The incremental fair value granted is the difference between the fair value of the replacement equity instruments and the net fair value of the cancelled equity instruments as at the date the replacement equity instruments are granted. The net fair value of the cancelled instruments is their fair value immediately before the cancellation, less the amount of any payment made to the employee on cancellation of the equity instruments.

No expense is recognised for awards that do not ultimately vest as a result of the relevant employee ceasing to be employed by the Group.

Fair value is measured using the Black Scholes Option Pricing Model. The expected life used in the model is the expiry date of the options.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the value of the shares issued are allocated to share capital with any excess being recorded as share premium.

Foreign currency

Transactions denominated in foreign currencies are recorded in Sterling at the actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported in sterling at the then prevailing rates of exchange. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in profit or loss.

Research and development expenditure

Expenditure on research (or the research phase of an internal project) is charged to profit or loss in the period in which it is incurred.

Development expenditure is capitalised when the criteria for recognition as an asset are met, that is when the Group can demonstrate:

- the technical feasibility of completing the project so that it will be able to use the asset for use or sale;
- its intention to complete and its ability to use the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete; and
- that costs associated with the asset and its development can be measured reliably.

Capitalised development expenditure is amortised over its expected useful life to its residual value on a straight-line basis. This amortisation commences once the generation of product to which the expenditure relates has been launched and is available for sale.

Development expenditure which is not capitalised because it fails to meet one or more of the above criteria for being capitalised is charged to profit or loss in the period in which it occurs.

Management monitors the progress of internal research and development projects by using a project management system.

Non-recurring items

Non-recurring items are significant unusual or infrequent items in the Income Statement and include costs arising from a change in strategy. They are reported separately to enable the user of the accounts to better understand the underlying performance of the Group.



Notes to the financial statements

Property, plant and equipment

Property, plant and equipment is carried at acquisition cost less accumulated depreciation and any provision for impairment. Depreciation is provided to write off the cost of all property, plant and equipment to its residual value on a straight-line basis over its expected useful economic lives as follows:

Plant and equipment	3 – 4 years
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Residual values and useful lives are reviewed annually.

Intangible assets

Intangible assets are capitalised on the basis of the costs incurred to acquire. These costs are amortised over the estimated useful life of the asset:

Software	2 years
Development costs	5 years

Residual values and useful lives are reviewed annually.

Impairment of property, plant and equipment and intangible assets

At each balance sheet date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets for any indication that those assets have suffered an impairment loss. For the purpose of this review assets are grouped into cash-generating units. As a result, some assets are tested individually for impairment and some are tested at cash-generating (or potentially cash-generating) unit level. If any indication of impairment exists, an impairment loss is recognised for the amount by which the assets or the cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for the Group's impairment testing are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancement. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

Impairment losses are charged pro rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge that has been recognised is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Financial assets

The Group's financial assets all fall into the category of loans and receivables.

The category of a financial asset is assigned on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses are recognised in the profit or loss or in other comprehensive income. See Note 26.5 for a summary of the Group's financial assets.

Interest receivable is accrued on a daily basis at the interest rate applicable to each deposit.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. The Group's trade and other receivables fall into this category of financial instruments. Discounting, however, is omitted where the effect of discounting is immaterial.

Significant receivables are considered for impairment on a case-by-case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. All other receivables are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics, if any. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Notes to the financial statements



Inventories

Inventories comprise directly attributable costs on components, incomplete products and complete products ready for sale and are held in the statement of financial position at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Inventories are expensed to the consolidated statement of comprehensive income as cost of sales or to the department which utilised them.

Income taxes

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods that are unpaid at the balance sheet date.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

In addition, tax losses available to be carried forward as well as other income tax credits are assessed for recognition as deferred tax assets.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be available to offset against any future taxable income.

Management bases its assessment of the probability of future taxable income on the Group's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Specific tax rules in the other legislations in which the Group operates are also taken into account. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in profit or loss, except tax relating to items recognised in other comprehensive income and tax relating to items recognised directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and accrued interest thereon.

Post-employment benefits

The Group provides post-employment benefits through different defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution.

The Group contributes to defined contribution plans, operated by independent life assurance companies, for the benefit of substantially all employees. Employer's contributions of up to 10% of pensionable payroll are paid dependent upon the age and seniority of the employee and are generally contingent upon employees' contributions. The amount charged to the profit or loss is the total of contributions payable in the year.



Notes to the financial statements

Financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments and on initial recognition they are measured at fair value. Financial liabilities are measured at amortised cost using the effective interest rate method except for derivatives that are measured at fair value.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges and fair value movements are included in the statement of comprehensive income lines "finance costs" or "finance income". A finance liability is derecognised when it is extinguished, discharged, cancelled or expires.

Within financial liabilities are warrants classified as derivative liabilities, carried at their fair value. Fair value is measured using the Black Scholes Model. The expected life is the expiry date of the warrant.

Leased assets

In accordance with IAS 17 "Leases", the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease.

Subsequent accounting for assets held under finance lease agreements, i.e. depreciation methods and useful lives, correspond to those applied to comparable assets which are legally owned by the Group. The corresponding finance leasing liability is reduced by lease payments less finance charges, which are expensed to finance costs.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are treated as operating leases.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit or loss net of any incentives received from the lessor on a straight-line basis over the period of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

Share capital

Share capital issued by the Company, or their components, are classified as a financial liability or equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial liability and equity instrument in IAS 32 "Financial Instruments: Presentation".

Ordinary Shares are classified as equity instruments. The Convertible Preference Shares are classified as a financial liability.

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Share premium

Share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of the expenses of the share issue.

Other reserve

The other reserve represents equity-settled share-based payments made to Directors and employees.

Profit and loss account

This represents all current and prior period results as disclosed in profit or loss.

Notes to the financial statements



Significant accounting estimates and judgements

SHARE OPTIONS AND WARRANTS

The fair value of options and warrants is determined using the Black Scholes valuation model, which requires a number of estimates and assumptions. The significant inputs into the model are the share price at the date of grant, the exercise price, the expected option life, the expected volatility and the risk-free interest rate. The detailed estimates and assumptions are set out in Note 20. The key estimate in the model, being volatility, is based on the historical volatility in the Company's share price over the previous 12 months.

RESEARCH AND DEVELOPMENT EXPENDITURE

The Board uses its judgement in the assessment of the extent, if any, to which expenditure is identified as development expenditure eligible for capitalisation rather than research expenditure. Key to this judgement is assessing whether or not the asset will generate probable future economic benefits and determining that the Group has adequate technical, financial and other resources to complete the development.

Following the change of strategy during 2017 the Directors reassessed these criteria and decided that the conditions for capitalising development costs had no longer been met.

DEFERRED TAX ASSET

The Board uses its judgement as to the timing and levels of future profits to assess as to when sufficient taxable profits will be generated to relieve the losses when providing for the deferred tax asset. No deferred tax asset is recognised at 31 December 2017 due to the uncertainty regarding the timing of future profits.

RESEARCH AND DEVELOPMENT TAX CREDIT

The Board uses its judgement in determining the likelihood of receiving cash from any research and development tax credit claim it may make in respect of the year ended 31 December 2017. Key to this judgement is whether or not there was expenditure in the period that would meet all the criteria to qualify for such a tax credit.

4. Segment information

The Chief Operating decision makers are considered to be the Executive Directors.

The Group operates in one operating segment, that of medical devices. All of the assets of the Group are related to that operating segment and are held in the UK. Geographical analysis of the results of the business is nil% (2016: 7%) sales arose within the UK and the remainder from Europe and Asia.

Notes to the financial statements



5. Loss attributable to equity holders

This is stated after charging/(crediting):

	2017 £000	2016 £000
Depreciation of property, plant and equipment		
• owned	118	95
• held under finance leases	1	-
Amortisation of intangible assets	381	57
Auditor's remuneration:		
• Audit of Company	17	20
• Audit of subsidiary	8	9
• Audit-related assurance	-	6
• Tax compliance services	21	7
Research and development during year	1,759	727
Capitalised research and development written off	3,578	-
Inventory expensed in year	1,550	572
Operating lease rentals		
• amounts payable for plant and machinery hire	8	11
• in respect of other operating leases including land and buildings	249	189
Net loss/(gain) on foreign currency translation	1	(19)
	<hr/>	<hr/>

6. Finance income and finance costs

	2017 £000	2016 £000
Finance income:		
Interest receivable on bank deposits and similar income	1	72
Movement on fair value of warrants	207	-
	<hr/>	<hr/>
	208	72
	<hr/>	<hr/>
	2017 £000	2016 £000
Interest payable and similar charges:		
Interest payable	191	-
Preference share coupon	101	-
	<hr/>	<hr/>
	292	-
	<hr/>	<hr/>

Notes to the financial statements



7. Information regarding employees

Particulars of employees (including executive Directors) are as shown below.

Employee costs during the year amounted to:	2017 £000	2016 £000
Wages and salaries (including performance-related and severance pay)	3,077	3,278
Social security costs	337	352
Pension costs	76	117
Other benefits (being income protection, life assurance, healthcare, company car and car allowances)	52	98
Charge in respect of share options	100	180
	3,642	4,025
Average monthly number of employees during the year:	2017 Number	2016 Number
Selling and marketing	8	10
Production	13	15
Product development	27	28
Regulation and Quality	5	6
Administration	11	11
	64	70



Notes to the financial statements

8. Information regarding Directors and key management

Particulars of (i) the emoluments of Directors and of (ii) transactions with key management personnel are as shown below:

	Directors (including Executive and Non-Executive Directors)		Key management (including Executive and Non- Executive Directors)	
	2017 £000	2016 £000	2017 £000	2016 £000
Short-term employee benefits				
Wages and salaries	630	538	996	952
Performance-related pay	41	118	41	145
Severance pay	30	-	67	-
Social security costs	77	73	125	133
Fees	20	20	20	20
Other benefits	48	28	58	43
	846	777	1,307	1,293
Long-term employee benefits				
Company contributions to defined contribution pension schemes	858	27	25	44
	705	804	1,332	1,337
Share option charges	78	108	89	141
	936	912	1,421	1,478

The Directors' emoluments includes £419,000 (2016: £349,000) in respect of the highest paid Director, of which £275,000 (2016: £220,000) relates to wages and salary, £nil (2016: £nil) in relation to performance pay, £13,000 (2016: £13,000) relates to contributions paid to a pension scheme, £41,000 (2016: £54,000) is in relation to share option charges, £30,000 (2016: £nil) for severance pay, £39,000 (2016: £48,000) is in relation to national insurance contributions and £21,000 (2016: £14,000) is in relation to other benefits.

The number of Directors who were members of a defined contribution pension scheme to which the Group contributed during the year was 2 (2016: 2). The number of other key management who were members of a defined contribution pension scheme to which the Group contributed during the year was 2 (2016: 3). The Group does not contribute to any pension schemes other than defined contribution schemes.

Brenig Preest is a representative of Arthurian Life Sciences Limited ("Arthurian") and the fees in respect of Mr Preest are paid to Arthurian.

The Company's insurance cover includes Directors' indemnity insurance.

Notes to the financial statements



9. Income tax expenses

There is no tax charge for the year due to losses arising. The Directors have not recognised any credit in respect of potential research and development tax claims in respect of the current period of 2017 which may arise following agreement by HM Revenue & Customs. The Directors have yet to determine whether to make a claim or not and therefore an accurate estimate of the claim is not available.

£607,000 was received during the year in respect of research and development tax claims for 2016 (2016: £556,000 was received in respect of a research and development tax claim for 2015). The tax charge is different from that resulting from applying the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
Loss before tax	(10,166)	(5,069)
Expected tax credit at the tax rate of 19.25% (2016:20%)	(1,957)	(1,014)
Fixed asset differences	4	-
Expenses not deductible for tax purposes	61	32
Creation of tax losses not recognised	1,892	982
Adjustment in respect of prior years	(607)	(556)
Actual tax credit, net	(607)	(556)

No deferred tax asset has been recognised due to the current uncertainty of future taxable profits. The asset will be recognised when sufficient taxable profits are generated to relieve the losses, depreciation and capital allowances equalise and other temporary differences reverse. The amounts not provided are as follows:

	2017 £000	2016 £000
Unused tax losses	(8,541)	(7,401)
Fixed asset timing differences	-	12
Other temporary differences	(1)	(1)
Deferred tax asset	(8,542)	(7,390)

The Group has accumulated tax losses of £50.2 million (2016: £43.5 million).

Notes to the financial statements



10. Non-recurring items

In August 2017 it was decided to change the Group's strategy to focus on the development of Proxima in order to maximise the total addressable market, and to significantly scale back the commercial activities. As a result of this change of strategy, the carrying value of inventory and intangible assets was reassessed and it was decided to write off the inventory and to recognise an impairment in the value of the intangible assets. Other non-recurring costs incurred include transaction costs in connection with the fundraise.

	2017 £000	2016 £000
Inventory written off	(760)	-
Impairment of intangible assets	(3,578)	-
Other costs	(91)	-
	(4,429)	-

11. Property, plant and equipment

	2017 £000	2016 £000
Plant and equipment		
Cost:		
At start of year	1,852	1,674
Additions	190	183
Disposals	(3)	(5)
At end of year	2,039	1,852
Depreciation:		
At start of year	1,663	1,571
Disposals	(1)	(3)
Provided in the year	119	95
At end of year	1,781	1,663
Net book value:		
At end of year	258	189
At end of previous year	189	103

Notes to the financial statements



12. Intangible assets

	Software £000	Capitalised Development £000	2017 Total £000	2016 Total £000
Cost:				
At start of year	140	2,972	3,112	1,023
Additions	-	1,032	1,032	2,089
Impairment	-	(4,004)	(4,004)	-
At end of year	140	-	140	3,112
Amortisation:				
At start of year	137	47	184	127
Provided in the year	2	379	381	57
Impairment	-	(426)	(426)	-
At end of year	139	-	139	184
Net book value:				
At end of year	1	-	1	2,928
At end of previous year	3	2,925	2,928	896

13. Investment in subsidiary undertakings

The subsidiary undertakings within the Group at 31 December 2017 were:

Subsidiary undertaking	Country of incorporation	Principal activity	Class of shares	Holding
Sphere Medical Limited	England & Wales	Medical diagnostics	Ordinary	Direct 100%
Sphere Medical Production Limited	England & Wales	Dormant	Ordinary	Indirect 100%

Voting rights are in accordance with the percentage of Ordinary Share ownership.

The subsidiary undertakings have been included in the consolidated financial statements.

Notes to the financial statements



14. Inventory

	2017 £000	2016 £000
Raw materials	-	365
Finished goods	-	62
	-	427

15. Trade and other receivables

Amounts falling due within one year:

	2017 £000	2016 £000
Trade receivables	1	24
VAT	28	70
Other receivables	56	87
	85	181

16. Trade and other payables

	2017 £000	2016 £000
Trade payables	120	93
Social security and other taxes	74	85
Amounts owed to pension scheme	7	13
Finance lease creditor	6	-
Accruals	378	566
Accrued preference coupon	102	-
	687	757

Notes to the financial statements



17. Loans and borrowings

Amounts due under loans and borrowings:

	2017 £000	2016 £000
Within one year	563	-
Within one to five years	957	-
	<u>1,520</u>	<u>-</u>

The Group has a term bank loan on which interest is payable at a variable rate relative to bank base rates and which is repayable in equal monthly instalments from April 2018 to March 2020. The bank loan is secured by fixed and floating charges over the Group's assets.

18. Leases

Operating leases

The Group operates from leased properties. The lease for the Harston Office is a three-year lease with a six month break clause. The lease for the St Asaph office expires on 24 August 2020. In addition the Group has operating leases on various pieces of equipment.

Minimum amounts payable under operating leases are as follows:

	2017 £000	2016 £000
Within one year	133	158
Within one to five years	109	146
	<u>242</u>	<u>304</u>

Finance leases

Certain of the Group's assets are held under finance lease arrangements. The net carrying amount of the assets held under the leases is £19,000 (2016 - £Nil). The assets are included in the total shown in Note 11 "Property, plant and equipment". Payments due are £18,000 (2016 £Nil).

Minimum amounts payable under operating leases are as follows:

	2017 £000	2016 £000
Within one year	6	-
Within one to five years	12	-
	<u>18</u>	<u>-</u>



Notes to the financial statements

19. Derivative liabilities

On 10 November 2011 the Company entered into agreements providing parties with the right to subscribe for an aggregate of 4,554 Ordinary Shares at an exercise price of £1.70 per share with such rights lapsing on the seventh anniversary of entry into such agreements.

On 22 July 2013 the Company issued 4,164,750 warrants to subscribe for Ordinary Shares, of which 50% are exercisable at 44 pence per share and 50% are exercisable at 92.5 pence per share. These warrants are exercisable for up to five years from issue.

On 10 October 2017 the Company issued 283,486,888 warrants to subscribe for Convertible Preference Shares at a price of 2.822 pence per share until 31 October 2018.

On 8 December 2017 the Company issued 3,189,227 warrants to subscribe for Convertible Preference Shares at a price of 2.822 pence per share. These warrants are exercisable for up to 10 years from issue.

The warrants have been measured at fair value using the Black-Scholes Model for which the share price was taken at £0.02822 for the Convertible Preference Shares and £0.005 (2016: £0.10) for the Ordinary Shares, the risk-free interest rate was 0.48% (2016: 0.57%), the dividend rate nil (2016: nil). At 31 December 2017 the remaining life was 0.86 years (2016: 1.86 years) for the 2011 warrants, 0.56 years (2016: 1.56 years) for the 22 July 2013 warrants, 0.83 years for the October 2017 warrants and 9.94 years for the December 2017 warrants. The application of the above assumptions to the warrants outstanding results in the following fair values:

	2017 £000	2016 £000
November 2011 warrants	-	-
July 2013 warrants	-	-
October 2017 warrants	1,624	-
December 2017 warrants	57	-
	<hr/> 1,681	<hr/> -
Less: current portion	<hr/> (1,624)	<hr/>
Non-current portion	<hr/> 57	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements



20. Share capital

	2017		2016	
	Start of period	End of period	Start of period	End of period
Issued and fully paid				
Ordinary Shares (number) of £0.01	141,757,872	141,757,872	141,757,872	141,757,872
	<u>141,757,872</u>	<u>141,757,872</u>	<u>141,757,872</u>	<u>141,757,872</u>
Ordinary Shares (nominal) of £0.01	£1,417,579	£1,417,579	£1,417,579	£1,417,579
	<u>£1,417,579</u>	<u>£1,417,579</u>	<u>£1,417,579</u>	<u>£1,417,579</u>

Convertible Preference Shares

During the year 179,912,380 Convertible Preference Shares were issued at a Subscription Price of 2.822p per share. Holders of the Convertible Preferred Shares may at any time elect to convert their shares into Ordinary Shares on the basis of one Ordinary Share for one Convertible Preferred Share. The Convertible Preferred Shares are entitled to dividend of 8% of Subscription Price per annum. To the extent that this dividend is not payable because of insufficient distributable reserves, the dividend accumulates. In the event of a third party acquiring an interest in a majority of the shares, the proceeds of the share sale shall be distributed:

- first in paying the holders of the Convertible Preferred Shares 2.822p per share plus any unpaid accumulated dividend
- the balance of the proceeds shall be distributed between holders of Convertible Preferred Shares and Ordinary Shares pro rata to the number of shares held.

The Convertible Preference Shares have been accounted for as a financial liability of £5,077,000 reduced by costs attributable to the issue of shares of £322,000.

Warrants to subscribe Ordinary Shares

At the year-end there were 290,845,419 warrants (2016: 5,440,281 warrants) in issue in respect of 290,845,419 Ordinary Shares (2016: 6,565,121 Ordinary Shares). Details of these warrants are given in Note 19.

Share options

Share options are awarded to Directors and permanent employees from time to time.

Notes to the financial statements



20. Share capital (continued)

At 31 December 2017 the Company had outstanding options over Ordinary Shares as follows:

Date granted	Exercise price per Ordinary Share	Number of shares at 31 Dec 2016	Granted during the year	Released during the year	Forfeited during the year	Number of shares at 31 Dec 2017	Scheme	Life of option and vesting (see below)	Estimated fair value
13 Jan 2009	£1.70	158,992	-	-	-	(158,992)	Unapproved	(1)	£0.699
31 Oct 2011	£0.925	1,507,964	-	-	-	(1,507,964)	Unapproved	(1)	£0.382
18 May 2012	£0.925	70,000	-	-	-	(70,000)	Unapproved	(1)	£0.334
1 June 2012	£0.925	189,730	-	-	-	(189,730)	EMI	(1)	£0.334
1 Nov 2013	£0.92	3,750	-	-	-	(3,750)	Unapproved	(1)	£0.0519
1 Jan 2014	£0.40	102,500	-	-	-	(102,500)	EMI	(1)	£0.0939
1 Feb 2014	£0.40	25,000	-	-	-	(25,000)	EMI	(1)	£0.0939
1 June 2014	£0.40	1,320,000	-	-	-	(1,320,000)	EMI & Unapproved	(1)	£0.0877
1 March 2015	£0.40	133,180	-	-	-	(133,180)	EMI	(9)	£0.0364
1 March 2015	£0.1325	114,700	-	-	-	(114,700)	EMI	(9)	£0.1026
1 May 2015	£0.16	2,660,000	-	-	-	(2,660,000)	Unapproved	(9)	£0.0591
1 May 2015	£0.16	670,000	-	-	-	(670,000)	Unapproved	(9)	£0.0591
1 May 2015	£0.16	50,000	-	-	-	(50,000)	Unapproved	(9)	£0.0591
1 July 2015	£0.16	1,171,680	-	-	-	(1,171,680)	EMI	(9)	£0.0626
1 July 2015	£0.16	709,000	-	-	-	(709,000)	EMI	(9)	£0.0789
15 July 2015	£0.178	1,340,000	-	-	-	(1,340,000)	EMI	(9)	£0.0695
1 Sept 2015	£0.40	25,000	-	-	-	(25,000)	Unapproved	(9)	£0.0205
1 Sept 2015	£0.16	45,000	-	-	-	(45,000)	EMI & Unapproved	(9)	£0.0503
1 Oct 2015	£0.16	50,000	-	-	-	(50,000)	EMI	(9)	£0.0269
1 Oct 2015	£0.09	50,000	-	-	-	(50,000)	EMI	(9)	£0.041
31 Mar 2016	£0.16	1,500,000	-	-	-	(1,500,000)	Unapproved	(9)	£0.0352
1 May 2016	£0.16	30,000	-	-	-	(30,000)	EMI & Unapproved	(9)	£0.0703
1 Nov 2016	£0.16	30,000	-	-	-	(30,000)	EMI	(9)	£0.0553
Total		11,956,496	-	-	-	(11,956,496)			

(1) Fully vested.
(2) Vesting 50% after one year, 25% after two years and the remaining 25% after three years.

Notes to the financial statements



20. Share capital (continued)

The estimated fair value of each share option was calculated by applying the Black-Scholes option pricing model. The model inputs were the exercise price, expected volatility of 20% for all options granted to February 2008, 25% for all options granted to October 2011 and 39% for all subsequent grants up to December 2014, 30% for March 2015 grants, 29% for May 2015 grants, 30% for July 2015 grants, 35% for Sept 2015 grants, 37% for October 2015 grants, 53% for March 2016 grants and 57% for November 2016 grants, no expected dividends, contractual life to the expiry date of the option at issue. Early exercise is not considered likely and therefore there have been no adjustments in this respect. Management has determined volatility based on market movements in the share price. The risk-free interest rate was taken as 5.00% for all options granted in 2004 to 2006, 5.50% for the options granted in 2007, 5.25% for the options granted on 21 February 2008, 3.00% for the options granted from December 2008 to October 2011, 0.49% for options granted from November 2011 to March 2016, 0.77% for options granted in November 2016 and 0.77% for options granted in 2017.

The expense arising from share options was £100,000 (2016: £180,000).

Further details of the share option plans are as follows:

	2017		2016	
	Number of options	Weighted average exercise price £	Number of options (Restated)	Weighted average exercise price (Restated) £
Outstanding at start of year	11,956,496	0.331	11,013,354	0.379
Granted	15,000	0.160	1,560,000	0.160
Lapsed	(11,971,496)	(0.331)	(616,858)	(0.972)
Exercised	-	-	-	-
Replaced	-	-	-	-
Outstanding at end of year	-	-	11,956,496	0.331

Following the delisting from AIM and the subsequent fundraise, all share options lapsed during the year.



Notes to the financial statements

21. Reconciliation of operating loss to operating cash flows

	2017 £000	2016 £000
Operating activities – loss for the period before interest and tax	(10,082)	(5,141)
Depreciation	119	92
Amortisation	381	57
Write off capitalised development costs	3,578	-
Share-based payments	100	180
Decrease/(increase) in inventory	427	(43)
Decrease/(increase) in trade and other receivables	76	(54)
Decrease in trade and other payables	(172)	(168)
Taxes received	607	556
	(4,966)	(4,521)

22. Related party transactions

Balances and transactions between the Company and other members of the Group headed by Sphere Medical Holding Limited have been eliminated on consolidation within the Group financial statements and are not disclosed in this note.

23. Financial Instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs.

24. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and at banks and accrued interest on bank deposits.

25. Contingent liabilities

There were no contingent liabilities at 31 December 2017 (2016: £nil).

26. Risk management objectives and policies

The Group is exposed to market risk, specifically currency risk and interest rate risk, which result from both its operating and investing activities. The Group's risk management focuses on securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

Financial assets and liabilities are measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance used in the measurement of the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted market prices included within level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The derivative liability, being the calculated fair value of warrants in issue, is determined based on Level 3.

Notes to the financial statements



26. Risk management objectives and policies (continued)

26.1 Foreign currency sensitivity

Some of the Group's transactions are carried out in US dollars and in Euros. Exposures to currency exchange rates arise from the Group's overseas sales and purchases which are primarily denominated in US dollars and in Euros.

To mitigate the Group's exposure to foreign currency risk, non-Sterling cash flows are monitored. If the amounts and timing of payments due and receivable are determinable with sufficient certainty and the net amounts are significant (i.e. the amounts to be paid and received did not largely offset one another), the Group would consider taking appropriate hedging activity to protect cash-flows that are not expected to be offset by other currency transactions. No such hedging arrangements have so far been entered into.

Foreign currency denominated financial assets and liabilities, translated into Sterling at the closing rate, are all short-term and are as follows:

	2017 - £000		2016 - £000	
	Euros	US dollars	Euros	US dollars
Financial assets	10	1	41	2
Financial liabilities	(11)	-	(30)	(6)
Short-term exposure	(1)	1	11	(4)

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Euro/Sterling exchange rate and US dollar/Sterling exchange rate. It assumes a +/- 10% change in the Euro/Sterling exchange rate for the year ended 31 December 2017 (2016: 10%) and a +/- 10% change in the US dollar/Sterling exchange rate (2016: 10%). These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each balance sheet date.

If Sterling had strengthened against the Euro and the US dollar by 10% (2016: 10%) and 10% (2016: 10%) respectively then this would have had the following impact:

	2017 - £000			2016 - £000		
	Difference arising from change in Euros	Difference arising from change in US dollars	Total	Difference arising from change in Euros	Difference arising from change in US dollars	Total
Net result for the year	-	-	(9,559)	+1	-	(4,514)
Equity	-	-	(5,139)	+1	-	6,208



Notes to the financial statements

26. Risk management objectives and policies (continued)

If Sterling had weakened against the Euro and the US dollar by 10% (2016: 10%) and 10% (2016: 10%) respectively then this would have had the following impact:

	2017 - £000				2016 - £000		
	Difference arising from change in Euros	Difference arising from change in US dollars	Total	Difference arising from change in Euros	Difference arising from change in US dollars	Total	
Net result for the year	-	-	(9,559)	+1	-	(4,512)	
Equity	-	-	(5,139)	+1	-	6,210	

Exposures to foreign currency exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless the analysis above is considered to be representative of the Group's exposure to currency risk.

26.2 Interest rate sensitivity

The Group's policy is to minimise interest rate cash flow risk exposures on long-term financing. At 31 December 2017, the Group was exposed to changes in market interest rates through its bank deposits, which are subject to variable interest rates.

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +2% (2016: +2%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant.

	2017 - £000		2016 - £000	
	+2%	-2%	+2%	-2%
Net result for the year	(9,510)	N/A	(4,445)	N/A
Equity	(5,090)	N/A	6,277	N/A

26.3 Credit risk analysis

The Group's exposure to credit risk is limited to the carrying value of financial assets recognised at the balance sheet date, as summarised below:

	2017 £000	2016 £000
Classes of financial assets – carrying amounts:		
Cash and cash equivalents	3,172	3,241
Trade and other receivables	29	26
Total	3,201	3,267

Notes to the financial statements



26. Risk management objectives and policies (continued)

The Group monitors defaults of customers and other counterparties and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with credit-worthy counterparties.

Management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due. None of the Group's financial assets is secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short-term financial assets relates to the banking institutions holding such funds and assets on behalf of the Group and may therefore be higher in conditions of general banking uncertainty. While the counterparties are reputable banks with high quality external credit ratings, the Group nevertheless splits its deposits between different institutions in order to reduce risk.

26.4 Liquidity risk analysis

The Group manages its liquidity needs by monitoring cash outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling monthly projection. Long-term liquidity needs are identified monthly.

The Group maintains cash and cash equivalents to meet its liquidity requirements for up to a 30-day period.

At 31 December 2017, the Group's liabilities had contractual maturities which are summarised below:

	Current - £000		Non-current - £000	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade payables	120	-	-	-
Other short-term financial liabilities	378	-	-	-
	498	-	-	-

This compares to the maturity of the Group's financial liabilities at 31 December 2016 as follows:

	Current - £000		Non-current - £000	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
Trade payables	93	-	-	-
Other short-term financial liabilities	624	-	-	-
	717	-	-	-

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet date.



Notes to the financial statements

26. Risk management objectives and policies (continued)

26.5 Summary of financial assets and liabilities by category

Balance sheet headings - assets	2017 - £000			2016 - £000		
	Loans & receivables	Non-financial assets	Total for balance sheet heading	Loans & receivables	Non-financial assets	Total for balance sheet heading
Cash and cash equivalents	3,172	-	3,172	3,241	-	3,241
Trade receivables - current	1	-	1	24	-	24
VAT	28	-	28	70	-	70
Other receivables – current	-	56	56	6	81	87
Total	3,201	56	3,257	3,341	81	3,422

Balance sheet headings – liabilities	2017 - £000			2016 - £000		
	Other financial liabilities	Non-financial liabilities	Total for balance sheet heading	Other financial liabilities	Non-financial liabilities	Total for balance sheet heading
Liabilities at amortised cost:						
Trade payables	120	-	120	93	-	93
Social securities and other taxes	74	-	74	85	-	85
Amounts owing to pension scheme	7	-	7	13	-	13
Finance lease liability – current	6	-	6	-	-	-
Finance lease liability – non-current	12	-	12	-	-	-
Accruals	-	378	378	-	566	566
Bank loan	1,520	-	1,520	-	-	-
Accrued preference dividend	102	-	102	-	-	-
Convertible preference Shares	4,755	-	4,755	-	-	-
Derivative financial instruments	1,681	-	1,681	-	-	-
Total	8,277	378	8,655	191	566	757

The fair value of financial assets and liabilities is considered the same as the carrying values.

Notes to the financial statements



27. Capital management policies and procedures

	2017	2016
	£000	£000
Total equity	(5,139)	6,209
Cash and liquid funds	3,172	3,241

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern; and
- to provide an adequate return to shareholders.

Given that the Group is in the early stage of commercialising its products, in achieving these objectives the Group generally aims to:

- have sufficient available capital at any point to allow it to operate; and
- avoid payment obligations which would exceed its likely income.

Consequently, the significant majority of the Group's funding during the year was through permanent equity capital which carries no dividend obligations and no redemption rights.



Independent auditor's report to the members of Sphere Medical Holding Limited

Opinion

We have audited the parent company financial statements of Sphere Medical Holding Limited (the 'parent company') for the year ended 31 December 2017 which comprise the parent company balance sheet, the parent company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the parent company's affairs as at 31 December 2017 and its loss for the year then ended;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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.

Material uncertainty related to going concern

We draw your attention to note 2 in the Group financial statements which indicate that the parent company will require further funding to continue its commercial operations in accordance with its strategy. These conditions, along with the matters explained in note 1 to the parent company's financial statements indicate the existence of a material uncertainty which may cast doubt on the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would occur if the parent company was unable to continue as a going concern.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.



Independent auditor's report to the members of Sphere Medical Holding Limited

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent company, 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.

Responsibilities of directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP

David Newstead
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge

16 March 2018

Company Balance Sheet

At 31 December 2017



	Notes	2017 £000	2016 £000
Fixed assets			
Investments			
Subsidiaries	3	-	21,624
Loans	3	-	26,202
		<hr/>	<hr/>
		-	47,826
Current assets			
Debtors	4	4	42
Cash at bank and in hand		3,074	3,117
		<hr/>	<hr/>
		3,078	3,159
Creditors: amounts falling due within one year			
Trade and other payables	5	(184)	(146)
Derivative financial instruments	10	(1,624)	-
Loans and borrowings	6	(563)	-
		<hr/>	<hr/>
Net current assets		707	3,013
		<hr/>	<hr/>
Total assets less current liabilities		707	50,839
Creditors: amounts falling due after more than one year			
Loans and borrowings	6	(957)	-
Convertible preference shares	11	(4,755)	-
Derivative financial instruments	10	(57)	-
		<hr/>	<hr/>
Net assets		(5,062)	50,839
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	7	1,418	1,418
Share premium account		58,031	58,031
Other reserve		-	2,705
Profit and loss account		(64,511)	(11,315)
		<hr/>	<hr/>
Equity shareholders' funds		(5,062)	50,839
		<hr/>	<hr/>

The accompanying notes are an integral part of this balance sheet.

The Company's loss for the year was £(54,012,000) (2016: Loss £(11,156,000)).

Company number 4179503

Approved and authorised to issue by the Board on 15 March 2018 and signed on its behalf:

Luciën van Os
Director

Richard Wright
Director



Company Statement of Changes in Equity

At 31 December 2016

	Share capital £000	Share premium £000	Other reserve £000	Retained loss £000	Total equity £000
Balance as at 31 December 2015	1,418	58,102	2,786	(420)	61,886
Loss for the year ended 31 December 2016	-	-	-	(11,156)	(11,156)
Total comprehensive income for the period	-	-	-	(11,156)	(11,156)
Issue of share capital	-	-	-	-	-
Issue expenses	-	(71)	-	-	(71)
Employee share-based compensation	-	-	180	-	180
Reclassification following lapse of options	-	-	(261)	261	-
Transactions with owners	-	(71)	(81)	261	109
Balance as at 31 December 2016	1,418	58,031	2,705	(11,315)	50,839
Loss for the year ended 31 December 2017	-	-	-	(54,012)	(54,012)
Total comprehensive income for the period	-	-	-	(54,012)	(54,012)
Issue of warrants	-	-	-	(1,889)	(1,889)
Reclassification following lapse of options	-	-	(2,705)	2,705	-
Transactions with owners	-	-	(2,705)	816	(1,889)
Balance as at 31 December 2016	1,418	58,031	-	(64,511)	(5,062)



Notes to the financial statements

Authorisation of financial statements

The parent company financial statements of Sphere Medical Holding Limited (the "Company") for the year ended 31 December 2017 were authorized for issue by the Board on 15 March 2018 and the balance sheet was signed on the Board's behalf by Richard Wright and Luciën van Os. Sphere Medical Holding Limited is a Private Company incorporated and domiciled in Wales.

1. Accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention except for financial instruments and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) applicable standards and laws.

Following notification of shareholders and no objections being received, the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- A statement of cash flows and related notes
- A balance sheet at the beginning of the earliest comparative period
- Disclosures of related party transactions entered in to between two or more members of the group as they are wholly owned within the group
- Presentation of comparative reconciliations for property, plant and equipment and intangible assets
- Disclosure of key management personnel compensation
- Capital management disclosures
- Presentation of comparative reconciliation of the number of shares outstanding at the beginning and at the end of the period
- The effect of future accounting standards not adopted
- Certain share-based payment disclosures
- Disclosures in relation to impairment of assets
- Disclosures in respect of financial instruments
- Fair value measurement disclosures

The financial statements are presented in pounds Sterling.

Significant accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affects the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

SHARE OPTIONS AND WARRANTS

The fair value of options and warrants is determined using the Black-Scholes valuation model, which requires a number of estimates and assumptions. The significant inputs into the model are the share price at the date of grant, the exercise price, the expected option life, the expected volatility and the risk-free interest rate. The detailed estimates and assumptions are set out in Note 20 of the Group accounts. The key estimate in the model, being volatility, is based on the historical volatility in the Company's share price over the past 12 months.

The principal accounting policies are summarised below. They have been applied consistently throughout the year.

IMPAIRMENT REVIEW OF INVESTMENT

The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The impairment test involves determining the recoverable amount of the relevant investment, which corresponds to the higher of the fair value less costs to sell or its value in use. The value in use calculation for the Company's investment in Sphere Medical Limited uses cash flow projections based on financial forecasts for the next three years, being the period which is expected to include completion of the development of the automated version of Proxima. The key assumptions on which the cash flow projections are made are:

- The Group will complete the development and registration of the automated version of Proxima and commence commercialisation in the EU and US within the forecast period
- Cash flows are discounted at an appropriate rate, taking into account market information and the specific circumstances of the investment. A discount rate of 15% has been used.

Notes to the financial statements



Profit and loss account

No profit and loss account is presented for Sphere Medical Holding Limited as provided by Section 408 of the Companies Act 2006.

The results of Sphere Medical Holding Limited are included in the consolidated financial statements of Sphere Medical Holding Limited which are available from Harston Mill Harston Cambridge CB22 7GG.

The auditor's remuneration for audit services to the Group was £27,000 (2016: £29,000) and was borne entirely by the Company. Non-audit services provided by the Company's auditor amounted to £4,000 (2016: £13,000).

Details of the Directors' emoluments are set out in Note 8 of the Group accounts.

Share options

All share-based payment transactions granted by the Company since 7 November 2002 are recognised in the Group financial statements save for options granted that had already vested by 1 January 2005.

The Company issues equity-settled share-based payments to its Directors, as well as employees (including Directors) of its subsidiary, Sphere Medical Limited. In accordance with FRS 20, for all grants of share options and awards the cost of the equity-settled share-based payments is measured at fair value at the date of grant. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. The fair value is appraised at the grant date and excludes the impact of non-market vesting conditions. That fair value is expensed on a straight line basis over the vesting period for the related options based upon the Company's estimate of the shares that will eventually vest, with a corresponding credit to "other reserves" for Directors providing services solely to the Company. The fair value for Directors and employees of the Company's subsidiary Sphere Medical Limited is added to the cost of the investment in that subsidiary.

No expense is recognised for awards that do not ultimately vest as a result of the relevant employee ceasing to be employed by the Group.

Fair value is measured using the Black-Scholes Option Pricing Model. The expected life used in the model is the expiry date of the options.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the value of the shares issued are allocated to share capital with any excess being recorded as additional paid-in capital.

Going concern

The ability of the Company to continue as a going concern is dependent on the underlying operations of the Group as a whole.

At 31 December 2017 the cash balance available to the Group was £3.2m while for the year the group cash outflow from operating activities was £5.0m.

During 2017 the Group adopted a revised strategy in which commercial activities were significantly curtailed for the time being and focus was concentrated on developing an automated version of Proxima for launch in Europe and the US. The Group's revenues from sales of products are not expected to be sufficient for the Group to become cash generative from commercial operations over the next 12 months. The Company is intending to raise additional finance and has a good track record of being able to do so when it has needed to do so.

The Board of Directors has concluded that the combination of these circumstances represents a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Nonetheless, with £3.2m of cash as at 31 December 2017, a clear 2018 budget approved by the Board of Directors, a strong business plan for the next several years and the Group's track record of raising additional finance, the Board of Directors have reasonable expectation that the business will be able to continue in operation for at least 12 months from the date of approval of these financial statements. For these reasons, the Board of Directors continue to adopt the going concern basis of accounting in preparing these financial statements.

Investments

Fixed asset investments are shown at cost less any provision for impairment.

The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.



Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs.

Amounts due from group companies are initially recognised at fair value being the present value of future interest and capital receipts discounted at the market rate of interest for a similar financial asset. Where the face value of the loan exceeds the fair value of the loan on initial recognition this difference is added to the investment in that subsidiary if the loan is due from a subsidiary. Interest receivable on the loan is recognised in profit and loss under the effective interest method.

Particulars of employees are as shown below.

The company's only employees are the directors. The above does not include the employee costs of, Luciën van Os, Richard Wright or Wolfgang Rencken who were directors of both Sphere Medical Limited and Sphere Medical Holding Limited during the period and are paid by Sphere Medical Limited.

Notes to the financial statements



3. Investments

	Loans £000	Investment in Subsidiary £000
Cost and Net Book Value		
At 1 January 2016	20,050	32,037
Additions	3,144	3,351
Discount unwound	3,008	-
Impairment	-	(13,764)
At 31 December 2016	26,202	21,624
Additions	5,603	-
Impairment	(31,805)	(21,624)
At 31 December 2017	-	-

The loan is to Sphere Medical Limited and is used by that company for working capital requirements. The loan is interest-free, is unsecured and has no fixed date for repayment.

Included within investments in subsidiaries is £nil (2016: £1,827,000) which represents the share investment and a capital contribution made to Sphere Medical Limited via the issue of share options to that company's employees.

An impairment provision of £53,429,000 (2016 £13,764,000) has been recorded following a reassessment of the fair value of the investment in the subsidiary, based on the assumptions in Note 1.

The Company held an investment in the following subsidiary undertakings at 31 December 2016:

Subsidiary undertaking	Country of incorporation	Principal activity	Class of shares	Holding
Sphere Medical Limited	England	Medical diagnostics	Ordinary	100%
Sphere Medical Production Limited	Wales	Medical diagnostics	Ordinary	100% (indirect)

Voting rights are in accordance with the percentage of Ordinary Share ownership.

The subsidiary undertakings have been included in the consolidated financial statements.

Notes to the financial statements



4. Debtors

Amounts falling due within one year:

	2017 £000	2016 £000
VAT	3	6
Other debtors	1	36
	<u>4</u>	<u>42</u>
	<u><u>4</u></u>	<u><u>42</u></u>

5. Trade and other payables

	2017 £000	2016 £000
Trade creditors	20	24
Accruals and deferred income	62	122
Preference dividend accrual	102	-
	<u>184</u>	<u>146</u>
	<u><u>184</u></u>	<u><u>146</u></u>

6. Loans and borrowings

Amounts due under loans and borrowings:

	2017 £000	2016 £000
Within one year	563	-
Within one to five years	957	-
	<u>1,520</u>	<u>-</u>
	<u><u>1,520</u></u>	<u><u>-</u></u>

Notes to the financial statements



7. Share capital

	2017		2016	
	Start of period	End of period	Start of period	End of period
Issued and fully paid				
Ordinary Shares (number) of £0.01	141,757,872	141,757,872	141,757,872	141,757,872
	<u>141,757,872</u>	<u>141,757,872</u>	<u>141,757,872</u>	<u>141,757,872</u>
Ordinary Shares (nominal) of £0.01	£1,417,579	£1,417,579	£1,417,579	£1,417,579
	<u>£1,417,579</u>	<u>£1,417,579</u>	<u>£1,417,579</u>	<u>£1,417,579</u>

8. Leases

The company operates from a leased property. The current lease is a three year lease with a six month break clause.

Minimum amounts payable under operating leases are as follows:

	2017 £000	2016 £000
Within one year	6	100
Between two and five years	23	-

9. Contingent liabilities

There were no contingent liabilities at 31 December 2017 (2016: £nil).



Notes to the financial statements

10. Derivative liabilities

On 10 November 2011 the Company entered into agreements providing parties with the right to subscribe for an aggregate of 4,554 Ordinary Shares at an exercise price of £1.70 per share with such rights lapsing on the seventh anniversary of entry into such agreements.

On 22 July 2013 the Company issued 4,164,750 warrants to subscribe for Ordinary Shares, of which 50% are exercisable at 44 pence per share and 50% are exercisable at 92.5 pence per share. These warrants are exercisable for up to five years from issue.

On 10 October 2017 the Company issued 283,486,888 warrants to subscribe for Convertible Preference Shares at a price of 2.822 pence per share until 31 October 2018.

On 8 December 2017 the Company issued 3,189,227 warrants to subscribe for Convertible Preference Shares at a price of 2.822 pence per share. These warrants are exercisable for up to 10 years from issue.

The warrants have been measured at fair value using the Black-Scholes Model for which the share price was taken at £0.02822 for the Convertible Preference Shares and £0.005 (2016: £0.10) for the Ordinary Shares, the risk-free interest rate was 0.48% (2016: 0.57%), the dividend rate nil (2016: nil). At 31 December 2017 the remaining life was 0.86 years (2016: 1.86 years) for the 2011 warrants, 0.56 years (2016: 1.56 years) for the 22 July 2013 warrants, 0.83 years for the October 2017 warrants and 9.94 years for the December 2017 warrants. The application of the above assumptions to the warrants outstanding results in the following fair values:

	2017 £000	2016 £000
November 2011 warrants	-	-
July 2013 warrants	-	-
October 2017 warrants	1,624	-
December 2017 warrants	57	-
	1,681	-
Less: current portion	(1,624)	
Non-current portion	57	

Notes to the financial statements



11. Convertible Preference Shares

During the year 179,912,380 Convertible Preference Shares were issued at a Subscription Price of 2.822p per share. Holders of the Convertible Preferred Shares may at any time elect to convert their shares into Ordinary Shares on the basis of one Ordinary Share for one Convertible Preferred Share. The Convertible Preferred Shares are entitled to dividend of 8% of Subscription Price per annum. To the extent that this dividend is not payable because of insufficient distributable reserves, the dividend accumulates. In the event of a third party acquiring an interest in a majority of the shares, the proceeds of the share sale shall be distributed:

- first in paying the holders of the Convertible Preferred Shares 2.822p per share plus any unpaid accumulated dividend
- the balance of the proceeds shall be distributed between holders of Convertible Preferred Shares and Ordinary Shares pro rata to the number of shares held.

The Convertible Preference Shares have been accounted for as a financial liability of £5,077,000 reduced by costs attributable to the issue of shares of £322,000.

Warrants to subscribe Ordinary Shares

At the year-end there were 290,845,419 warrants (2016: 5,440,281 warrants) in issue in respect of 290,845,419 Ordinary Shares (2016: 6,565,121 Ordinary Shares). Details of these warrants are given in Note 19.

Share options

Share options are awarded to Directors and permanent employees from time to time.



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