

Oxford Nanopore Technologies Limited
Annual report and financial statements
for the year ended 31 December 2014

Registered number: 05386273



OXFORD NANOPORE TECHNOLOGIES LIMITED

CONTENTS

Company information	3
Directors' report	4
Directors' strategic report	6
Directors' responsibilities statement	9
Independent Auditor's report	10
Consolidated statement of comprehensive income	12
Consolidated balance sheet	13
Company balance sheet	14
Statements of changes in equity	15
Consolidated statement of cash flows	16
Company statement of cash flows	17
Notes to the consolidated financial statements	18

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors

G Sanghera
JP Willcocks
JA McDonald
PV Allen (Chairman)
A Aubrey
JHP Bayley
S Gordon-Wild (appointed 1 January 2015)

Company secretary

Aldwych Secretaries

Registered office

Edmund Cartwright House
4 Robert Robinson Avenue
Oxford Science Park
Oxford
OX4 4GA
United Kingdom

Company number

05386273

Independent auditor

Deloitte LLP
Reading
United Kingdom

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT

The directors are pleased to present their annual report on the affairs of Oxford Nanopore Technologies Limited ("the Company") and its subsidiaries ("the Group" or "Oxford Nanopore" or "ONT") and the audited financial statements for the year ended 31 December 2014.

Principal activities

The principal activities of the Group are to research, develop, manufacture and commercialise a technology platform based on nanopores for the direct analysis of single molecules. The instruments developed by the Group - MinION™, PromethION™ and GridION™ - are designed to address a wide range of customers and applications, and are compatible with nanopores that have been adapted for the analysis of molecules including DNA, RNA, proteins and small molecules. The Company is also expanding to offer analysis services (Metrichor) to its customers, to capture all the value associated with this technology.

MinION is a small, USB-compatible sensing device that is used with consumable 'flow cells' containing ONT-designed nanopores. PromethION is a desktop, high throughput instrument designed to allow the user to run a small or large number of samples. GridION is a larger and scalable product based on a hardware unit called a 'node' combined with consumable cartridges that contain nanopores. GridION nodes are designed to be capable of clustering to enable higher throughput of data. All these products stream data in real time and therefore have the potential to change the traditional paradigm of molecular analysis.

Metrichor is a cloud based analysis service that is vertically integrated with remote Nanopore sensing devices, either individually or as part of a distributed cluster. The intention of the service is to enable a wide range of new applications and markets outside of the laboratory, taking advantage of the real-time, streaming nature of the platform combined with geolocation and time information availability. Customised devices are envisioned that enable actions such as trending and tracking of biological information, with the potential for prediction based on those analyses. This could be utilised in areas such as self-quantification, quality control in food supply, pathogen/disease monitoring, leading to potential revenues around access to data streams including advertising.

The Group is in late stage development of the MinION product and, in early 2014, invited a number of researchers to join a large-scale early access scheme, the MinION Access Programme "MAP". In the MAP, several hundred customers in 42 countries are using the product, providing feedback on its performance and contributing to the development of its applications and operating protocols. Initially focused on DNA sequencing, the MAP will expand to additional applications as it progresses.

A review of the Group's research and development activities and future developments are discussed in the Strategic Report on pages 6 to 8.

Results and dividends

The consolidated statement of comprehensive income is set out on page 12. The directors do not recommend the payment of a dividend (2013: £nil).

Directors

The directors of the Company during the period, and up to the date of signing the financial statements were as follows:

G Sanghera
JP Willcocks
JA McDonald
PV Allen (Chairman)
A Aubrey (acting Chair)
JHP Bayley
S Gordon-Wild (appointed 1 January 2015)

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT

Auditor

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board



G Sanghera,
Director
19 May 2015

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' STRATEGIC REPORT

The directors are pleased to present the Strategic Report of Oxford Nanopore Technologies Limited and its subsidiaries and the audited financial statements for the year ended 31 December 2014.

Historical Financial Information and Key Performance Indicators

The Group has been in a research and development stage with no significant revenue from its inception and, as such, has generated a loss each year. The losses after tax and average headcount for the past three years have been as follows:

Year ending 31 Dec:	2012	2013	2014
Loss after Tax (£000)	19,159	24,215	36,974
Average Headcount	127	147	199

The loss after tax increased £12.8m from £24.2m in 2013 to £37.0m in 2014 driven by increased R&D spend on the Group's strand sequencing technology, the related MinION, GridION and PromethION platforms, and expenditure in 2014 related to the preparation for the MAP. This has been partially driven by a £5.0m, or 54%, increase in staff costs from 2013 to 2014 and a 35% increase in average headcount from 147 to 199.

The principal financial key performance indicators for the Group are controlling overall spend in line with budgets approved by the Board and ensuring that the Group has adequate cashflows to fund operations. For the year ended 31 December 2014, the Group's net loss of £37.0 million (2013: £24.2 million) was in line with budgets approved by the Board. Net cashflows and movements in current asset investments for the year ended 31 December 2014 were (£0.3) million (2013: £16.3 million). Additionally, at 31 December 2014, the Group's balance of cash, cash equivalents and other financial assets of £61.0 million (2013: £61.3 million) is considered adequate to fund the Group's operations.

These financial targets are supported by non-financial targets which are based on technical progress made in research and development. The non-financial targets are confidential and therefore are not disclosed in these financial statements, but are related to the achievement of specific performance thresholds of the MinION.

Research, Development and Production

During 2014, the Group continued to develop several aspects of its technology including, among others, variations to existing and development of new nanopores for molecular sensing, properties of the proprietary sensor chip in which nanopores are embedded, research programmes to expand the capacity and improve performance of the Application Specific Integrated Circuit (ASIC), software for operating the systems and analysing the resultant data, and methods of sample preparation. The Group also prepared to transition from research and development to a production and distribution phase which will be piloted during the MAP.

During the year, Oxford Nanopore added headcount across Research, Development, Production and Commercial parts of the Group. This required expansion of the premises at the Oxford Science Park and the addition of premises at the New York Genome Centre.

Commercial

In 2014, the Company focused on the research and development of MinION for early customer release.

Following the disclosure of MinION and GridION in 2012 and PromethION in 2014, the Group received feedback from the genomics community that the design of these products could enable a range of experiments and applications that were challenging with existing equipment. The breadth of interest in MinION combined with its simpler product design and potentially low cost of access meant that Oxford Nanopore was able to launch a large-scale, open customer access programme to accelerate the commercial development of the product.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' STRATEGIC REPORT

In early 2015 there are now several hundred participants in the MAP, each of whom has submitted a \$1,000 refundable deposit for each MinION that they use and receive free-of-charge flow cells, preparation kits, software, data analysis and customer support. MAP participants may pay to receive additional flow cells and preparation kits. The third wave of applications is now being taken for this oversubscribed programme.

Substantial improvements in shipped product performance and the process of serving customers have been achieved during the MAP. A number of scientific publications have now been published across a diverse range of applications and tools. Oxford Nanopore is organizing a scientific conference in May 2015 that will bring together researchers interested in nanopore sensing to discuss a range of these applications.

Future Developments

Oxford Nanopore has always viewed intellectual property and a long-term product pipeline as central to the long term growth and protection of the Group. In addition to continuous, iterative improvement of current product design the Group is also focused on future generations of nanopore sensing. Oxford Nanopore's first products include biological nanopores; however, the Group also has internal projects and external collaborations on future generations of solid-state nanopore sensing technologies.

The scalability of nanopore sensors is key to being able to reach all parts of the potential market. The Company continues to review new form factors for the Company's devices.

In addition, removing the barrier of complexity of analysis is key to long term development of this potential market and the Company is developing Metrichor to address this by offering workflows and analyses to people and groups within the secure, dedicated and scaled cloud environment.

Fundraisings

On 12 August, 2014, Oxford Nanopore raised £35 million (\$59 million) in new funding via a private placement of ordinary shares in the Company. The funds, which come from new and existing investors, were raised to support a range of corporate development activities including the development of commercial infrastructure, expansion of our manufacturing capability and further research and development for DNA/RNA sequencing and protein/miRNA analysis applications.

Previously on 8 October 2013, Oxford Nanopore raised £40 million (\$64 million) in new funding via a private placement of ordinary shares in the Company.

Going Concern

Although the Group is consistently loss making at present due to the research and development activity which it undertakes, the Group has financial resources in the form of cash, cash equivalents and other current financial assets which management forecast will be sufficient to enable the business to remain in operation for a period of not less than twelve months from the date of approving these financial statements.

Taking into consideration the current economic uncertainty, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' STRATEGIC REPORT

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group relate to whether the Group will be successful in fully developing its technology and whether the technology will be commercially successful.

Even if the MAP programme proves the technical feasibility of the current version of the MinION product, there will still be significant risks around whether the MinION, GridION, PromethION or any future products of the Group will be commercially successful. Some of these risks include:

- The Group is in early stages of commercialisation for the MinION product and has yet to experience very broad adoption of its first product.
- The Group thus has no proven track record of commercial success and no historical financial data upon which it can base projections of revenue. The Group has incurred losses to date and expects to continue to incur losses as it develops its business, and may never reach profitability.
- The products being developed by the Group are based on new and relatively unproven technologies and, as such, all development efforts carry a disproportionately high risk of failure. Even if the management is able to conclude that the current version of a product is technically feasible, there is no certainty that future development efforts will be successful. All development involves cutting edge state of the art technology. Planned improvements to products may be subject to delays or not delivered at all.
- The technology in life sciences and other applicable applied markets is constantly and rapidly changing. The Group expects to continue to face competition from enhanced or alternative technologies and products.

The Group's processes to manage their principal financial risks are outlined in note 13.

On behalf of the board



G Sanghera, Director
19 May 2015

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Chief Executive Officer
G Sanghera

19 May 2015



Chief Financial Officer
JA McDonald

19 May 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED

We have audited the financial statements of Oxford Nanopore Technologies Limited for the year ended 31 December 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 22. 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 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of the directors and the auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

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

Opinion on other matter prescribed by the Companies Act 2006

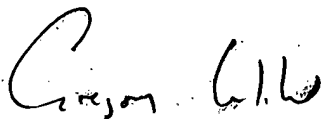
In our opinion the information given in the Directors' Report and the Directors' Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OXFORD
NANOPORE TECHNOLOGIES LIMITED (CONTINUED)**

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.



Gregory Culshaw, ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, United Kingdom

19 May 2015

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

		Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Revenue		-	-
Operating expenses			
Direct research & development expenses		(28,362)	(21,044)
General & administrative expenses		(11,026)	(5,682)
Facilities and infrastructure expenses		(1,739)	(1,277)
Depreciation and amortisation expense		(1,037)	(936)
Total operating expenses	4	(42,164)	(28,940)
Other Income		154	-
Loss from operations	4	(42,010)	(28,940)
Finance costs, net of exchange loss	8	(112)	(57)
Finance income	8	434	436
Loss before tax		(41,689)	(28,562)
R&D tax credits, net of tax paid	9	4,716	4,346
Accumulated loss for the period		(36,974)	(24,215)

The Group made no acquisitions and had no discontinued operations.

		Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Attributable to: Equity shareholders of the parent.			
Other Comprehensive Income			
Loss for the year		(36,974)	(24,215)
Exchange differences on translation of foreign operations	9	(21)	
Total Comprehensive Income		(36,965)	(24,236)

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2014

	Note	2014 £000's	2013 £000's
Non-current assets			
Property, plant and equipment	10	1,956	1,364
		<u>1,956</u>	<u>1,364</u>
Current assets			
Trade and other receivables	13	2,620	1,901
R&D tax credit recoverable		4,741	4,333
Other financial assets	14	36,121	33,152
Cash and cash equivalents	18	24,864	28,118
		<u>68,346</u>	<u>67,505</u>
Total assets		<u>70,303</u>	<u>68,870</u>
Current liabilities			
Trade and other payables	14,15	(4,281)	(3,098)
		<u>(4,281)</u>	<u>(3,098)</u>
Non-current liabilities			
Provisions	16	(415)	(200)
		<u>(415)</u>	<u>(200)</u>
Total liabilities		<u>(4,696)</u>	<u>(3,298)</u>
Net assets		<u>65,606</u>	<u>65,572</u>
Equity			
Share capital	17	26	25
Share premium reserve		180,751	145,818
Retained earnings		(115,152)	(80,243)
Translation Reserve		(19)	(28)
Total equity		<u>65,606</u>	<u>65,572</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 19 May 2015. They were signed on its behalf by:



G Sanghera

Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY BALANCE SHEET for the year ended 31 December 2014

	Note	2014 £000's	2013 £000's
Non-current assets			
Property, plant and equipment	10	1,803	1,236
Investment in subsidiary undertakings	11	119	215
		<u>1,922</u>	<u>1,450</u>
Current assets			
Trade and other receivables	12	2,520	1,868
R&D tax credit recoverable		4,741	4,334
Other financial assets	13	36,121	33,152
Cash and cash equivalents	17	24,594	28,030
		<u>67,976</u>	<u>67,385</u>
Total assets		<u>69,898</u>	<u>68,835</u>
Current liabilities			
Trade and other payables	14	(3,919)	(3,065)
		<u>(3,919)</u>	<u>(3,065)</u>
Non-current liabilities			
Provisions	15	(415)	(200)
		<u>(415)</u>	<u>(200)</u>
Total liabilities		<u>(4,334)</u>	<u>(3,265)</u>
Net assets		<u>65,563</u>	<u>65,570</u>
Equity			
Share capital	16	26	25
Share premium reserve		180,751	145,818
Retained earnings		(115,213)	(80,273)
Total equity		<u>65,563</u>	<u>65,570</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 19 May 2015. They were signed on its behalf by:



G Sanghera

Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2014

Consolidated	Share Capital £000's	Share Premium Account £000's	Retained Earnings £000's	Translation Reserve £000's	Total £000's
Balance at 1 January 2013	23	106,134	(56,212)	(7)	49,938
Total recognised loss for the year	-	-	(24,215)	-	(24,215)
Exchange loss on Translation of subsidiary	-	-	-	(21)	(21)
Issue of share capital	2	40,069	-	-	40,070
Cost of share issue	-	(385)	-	-	(385)
Employee share benefit	-	-	185	-	185
Balance at 1 January 2014	25	145,818	(80,243)	(28)	65,572
Total recognised loss for the year	-	-	(36,974)	-	(36,974)
Exchange gain on Translation of subsidiary	-	-	-	9	9
Issue of share capital	1	35,053	-	-	35,054
Cost of share issue	-	(120)	-	-	(120)
Employee share benefit	-	-	2,065	-	2,065
Balance at 31 December 2014	26	180,751	(115,152)	(19)	65,606

Company	Share Capital £000's	Share Premium Account £000's	Retained Earnings £000's	Total £000's
Balance at 1 January 2013	23	106,134	(56,225)	49,933
Total recognised loss for the year	-	-	(24,233)	(24,233)
Issue of share capital	2	40,069	-	40,070
Cost of share issue	-	(385)	-	(385)
Employee share benefit	-	-	185	185
Balance at 1 January 2014	25	145,818	(80,273)	65,570
Total recognised loss for the year	-	-	(37,005)	(37,005)
Issue of share capital	1	35,053	-	35,054
Cost of share issue	-	(120)	-	(120)
Employee share benefit	-	-	2,065	2,065
Balance at 31 December 2014	26	180,751	(115,213)	65,563

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

		Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Net cash outflow from operating activities	17	(33,876)	(23,270)
Investing activities			
Purchases of property, plant and equipment		(1,635)	(736)
Proceeds from the sale of fixed asset		6	24
Amounts transferred (to) / from other financial assets		(2,968)	(10,105)
Finance costs net of exchange loss		(112)	(57)
Interest received		377	671
Net cash (used in) / from investing activities		(4,331)	(10,203)
Financing activities			
Proceeds from issue of shares		35,054	40,070
Costs of share issue		(120)	(385)
Net cash from financing activities		34,934	39,685
Net increase in cash and cash equivalents before foreign exchange movements		(3,273)	6,212
Foreign Exchange (loss)/gain		19	(10)
Cash and cash equivalents at beginning of period		28,118	21,916
Cash and cash equivalents at end of period		24,864	28,118

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY STATEMENT OF CASH FLOWS **for the year ended 31 December 2014**

		Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
	Note		
Net cash outflow from operating activities	17	<u>(34,225)</u>	<u>(23,292)</u>
Investing activities			
Purchases of property, plant and equipment		(1,544)	(574)
Loans repaid by / provided to subsidiary undertakings		96	44
Proceeds from the sale of fixed asset		6	24
Amounts transferred (to) / from other financial assets		(2,968)	(10,105)
Finance costs net of exchange loss		(112)	(57)
Interest received		377	671
Net cash used in investing activities		<u>(4,145)</u>	<u>(9,997)</u>
Financing activities			
Proceeds from issue of shares		35,054	40,070
Costs of share issue		(120)	(385)
Net cash from financing activities		<u>34,934</u>	<u>39,685</u>
Net (decrease)/increase in cash and cash equivalents		<u>(3,436)</u>	<u>6,396</u>
Cash and cash equivalents at beginning of period		<u>28,030</u>	<u>21,635</u>
Cash and cash equivalents at end of period		<u><u>24,594</u></u>	<u><u>28,030</u></u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL INFORMATION

Oxford Nanopore Technologies Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 3. The nature of the Group's operations and its principal activities are set out in the Directors' Report on page 4.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2. ADOPTION OF NEW AND REVISED STANDARDS

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

New standards and interpretations

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements;
- IFRS 15 Revenue from Contracts
- IAS 1 (amended) Disclosure initiatives
- IAS 16 and IAS 38 (amended) Depreciation and amortisation
- IAS 19 (amended) Employee contributions
- IAS 27 (amended) Separate Financial Statements

The Directors anticipate that the adoption of these standards in future periods is not expected to have a material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements relate solely to the activities of Oxford Nanopore Technologies Limited and its subsidiaries.

A summary of the Group's principal accounting policies, all of which have been applied consistently throughout the current and preceding year, is set out below:

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("IFRSs"), and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statements of comprehensive income and related notes.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity, so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Group's financial position together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 8. Note 13 to the financial statements includes the Group's assessment of financial risks and its policies and processes for managing those risks.

The directors note that the Group is consistently loss making at present due to the research and development activity which it undertakes. The loss for the current period is £ 37.0 million (2013: £24.2 million). However, the Group has financial resources in the form of cash, cash equivalents and other current financial assets, which management forecast will be sufficient to enable the business to remain in operation for a period of not less than twelve months from the date of approving these financial statements.

Having considered the current economic uncertainties, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentational currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case exchange rates at the date of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2014**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

The Group classifies its financial assets depending on the purpose for which the asset was acquired. The Group's accounting policy for each identified category is as follows:

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Other financial assets comprise longer-term deposits held with banks that do not meet the IAS 7 definition of a cash equivalent.

Financial liabilities

The Group classifies its financial liabilities depending on the purpose for which the asset was acquired. Other financial liabilities, which include trade payables and other short-term monetary liabilities, are recognised at amortised cost.

Research and development

All on-going research expenditure is currently expensed in the period in which it is incurred. The Group regularly assesses the research and development expenditures against the criteria for development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets". Development costs will be capitalised when all of the criteria are met and it is probable that future economic benefit will flow to the Group. The Group currently has no such qualifying expenditure.

Share-based payments

Where share options and other equity instruments are awarded to employees, the fair value of the instrument at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term. The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax balances are not discounted.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. Any corresponding liability is recognised within provisions.

All items of property, plant and equipment are carried at depreciated cost less any recognised impairment losses.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Leasehold improvements	- over the expected duration of the lease straight line
Plant and machinery	- 3 years straight line
Office equipment	- 3 years straight line

Government grants

The only income recognised by the Group are monies received under government grants. Government grants received are recognised as other income. Where retention of a government grant is dependent on the satisfaction of certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the income statement.

Critical accounting estimates and judgements

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

1) Intellectual Property Agreements

The Company has entered into a number of intellectual property licence agreements with academic institutions. These agreements contract the Company to make material payments in respect of licence issuance and maintenance fees over the term of the agreements.

Critical judgements are required in determining the accounting treatment of these agreements under IAS 38 "Intangible Assets". The directors believe that whilst the value of the licences can be reliably measured, it is as yet uncertain that any future economic benefit will be derived from the licences and flow to the Company. Accordingly, all amounts in relation to these agreements have been recognised within research and development expenses in the income statement during the period.

2) Research and Development Costs

Critical judgements are required in determining whether development spend meets the criteria for capitalisation of such costs as laid out in IAS38 "Intangible Assets", in particular whether any future economic benefit will be derived from the costs and flow to the Group. The directors believe that the criteria for capitalisation were not met during the year and accordingly all amounts in relation to research and development have been recognised within research and development expenses in the income statement during the period.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

4. LOSS FROM OPERATIONS

	Note	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
<i>This is after charging:</i>			
Staff costs	6	14,255	9,266
Depreciation		1,037	936
Direct non-staff research and development costs		17,682	14,992
Payments under operating leases - property		701	427
Net foreign exchange loss		112	53

All amounts relate to continuing operations

5. AUDITOR'S REMUNERATION

The analysis of auditor's remuneration is as follows:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Fees payable to the Group's auditor for the audit of the Group's annual accounts	28	22
US sales Tax and product classification	1	28
Professional services	70	18
Taxation	23	39
Total non-audit fees	94	85
Total fees payable to the Group's auditor	121	107

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2014

6. STAFF COSTS

Staff costs, including directors, consist of:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Wages and salaries	10,916	8,239
Employee Benefits	150	97
Social security costs	1,123	745
Share based payments	2,065	185
	<u>14,255</u>	<u>9,266</u>

The average monthly number of employees, including directors, during the year was 199 (2013: 147). This included 3 executive directors (2013: 3), 3 non-executive directors (2013: 3), 170 direct research and development staff (2013: 125) and 23 administration staff (2013: 16).

7. DIRECTORS' AND KEY MANAGEMENT COMPENSATION

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
<i>Directors' emoluments consist of:</i>		
Remuneration for management services	919	794
Amount paid as directors' fees	102	99
	<u>1,021</u>	<u>893</u>
<i>Highest paid director:</i>		
Remuneration for director's fees and management services	382	328
	<u>382</u>	<u>328</u>

The highest paid director did not exercise any share options in the current or prior period.

Executive directors receive medical insurance for themselves as a non-monetary benefit. Total premiums in respect of this cover amounted to £ 10,046 (2013: £5,012). All the emoluments relate to short-term employee benefits. No director received any post-employment benefit, other long-term benefit or termination benefit.

In 2014, none of the directors were granted any share options and one of the directors exercised 10,000 share options. In 2013, none of the directors were granted or exercised any share options.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

7. DIRECTORS' AND KEY MANAGEMENT COMPENSATION (CONTINUED)

Key Management Compensation

Aggregate compensation for key management, being directors and members of the Executive Committee, was as follows:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Short term employee benefits	1,585	1,410

In addition to the above, charges to the profit and loss account relating to share based payments relating to options held by directors amounted to £1,861 (2013: £32,768)

8. FINANCE INCOME AND EXPENSE

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Finance income		
Bank interest receivable	434	436
Finance expense		
Bank interest payable and charges	-	(4)
Exchange losses	(112)	(53)
	<u>(112)</u>	<u>(57)</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Current tax		
R&D tax credit for the period	(4,741)	(4,334)
Adjustment in respect of previous periods	-	(13)
Tax payable on foreign subsidiary	26	1
Total current tax	<u>(4,716)</u>	<u>(4,346)</u>

The deferred tax asset of £12,814,000 (2013: £8,237,254) has not been recognised due to uncertainty that the asset will reverse in the foreseeable future as the Group has yet to obtain significant sources of income. The unrecognised deferred tax asset relates to tax losses of £12,745,000 (2013: £8,251,039) and timing differences of £69,000 (2013: £29,478).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The differences between the small profits rate of corporate tax in the UK of 20% (2013: 20%) and the tax charge for the year are explained below

	Year Ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Loss before taxation	(41,689)	(28,562)
Standard tax rate for period as a percentage of losses at 20% (2013: 20%)	(8,338)	(5,712)
Effects of:		
R&D tax relief	(1,658)	(832)
Expenses not deductible	514	32
Adjustments to tax charge in respect of previous periods	4	(12)
Origination of unrecognised tax losses	4,677	2,057
Impact of share options	6	37
Short term and fixed asset timing differences not recognised	79	85
	<u>(4,716)</u>	<u>(4,346)</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2014**

10. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold	Plant and	Office	Total
Cost	Improvements	Machinery	Equipment	£000's
	£000's	£000's	£000's	
At 1 January 2013	813	2,463	1,298	4,574
Additions	42	358	332	732
Disposals	-	(167)	(9)	(176)
Foreign exchange movements	-	(5)	(3)	(8)
At 1 January 2014	855	2,649	1,618	5,122
Additions	321	777	530	1,628
Disposals	-	(7)	(19)	(27)
Foreign exchange movements	-	8	5	14
At 31 December 2014	1,176	3,427	2,135	6,737
Accumulated depreciation				
At 1 January 2013	(488)	(1,815)	(694)	(2,997)
Charge for the year	(169)	(419)	(348)	(936)
Eliminated on disposals	-	167	6	174
Foreign exchange movements	-	1	-	2
At 1 January 2013	(656)	(2,066)	(1,036)	(3,758)
Charge for the year	(170)	(457)	(411)	(1,037)
Eliminated on disposals	-	1	19	20
Foreign exchange movements	-	(4)	(2)	(6)
At 31 December 2014	(826)	(2,527)	(1,429)	(4,781)
Carrying amount				
At 31 December 2013	199	583	582	1,364
At 31 December 2014	350	901	705	1,956

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2014

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Leasehold Improvements £000's	Plant and Machinery £000's	Office Equipment £000's	Total £000's
Cost				
At 1 January 2013	813	2,441	1,287	4,542
Additions	42	251	281	574
Disposals	-	(153)	(9)	(162)
At 1 January 2014	855	2,539	1,560	4,954
Additions	321	737	487	1,544
Disposals	-	(7)	(19)	(27)
At 31 December 2014	1,176	3,269	2,027	6,471
Accumulated depreciation				
At 1 January 2013	(488)	(1,799)	(693)	(2,979)
Charge for the year	(169)	(389)	(342)	(899)
Eliminated on disposals	-	153	6	160
At 1 January 2014	(656)	(2,034)	(1,028)	(3,718)
Charge for the year	(170)	(415)	(385)	(970)
Eliminated on disposals	-	1	19	20
At 31 December 2014	(826)	(2,449)	(1,394)	(4,669)
Carrying amount				
At 31 December 2013	199	505	531	1,236
At 31 December 2014	350	820	633	1,803

At 31st December 2014, the Group had entered into contractual commitments for the acquisition of property, plant and equipment of £nil.

11. INVESTMENT IN SUBSIDIARIES

The principal subsidiaries of Oxford Nanopore Technologies Limited, are as follows:

Name	Country of Incorporation	Proportion of ownership interest	
		31 December 2014	31 December 2013
Oxford Nanopore Technologies, Inc	USA	100%	100%
Oxford Nanolabs Limited	England and Wales	100%	100%
Metrichor Limited	England and Wales	100%	100%

Oxford Nanolabs Limited has never traded and is a dormant company.

Oxford Nanopore Technologies Inc was set up on 29 September 2011 to provide sub-contracted R&D and other services in the USA to Oxford Nanopore Technologies Limited.

Metrichor Limited was set up on 31st May 2013 has never traded and is dormant.

All of the Company's subsidiary undertakings have been consolidated in the Group financial statements.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2014

11. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The Company's investment in subsidiary undertakings, comprised of loans, is summarised as:

	2014 £000's	2013 £000's
At 1 January	215	258
Movement	(96)	(44)
At 31 December	<u>119</u>	<u>215</u>

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Other debtors	623	84	589	65
Accrued interest income	133	77	133	77
Other taxes	654	730	654	730
Prepayments	<u>1,210</u>	<u>1,009</u>	<u>1,144</u>	<u>996</u>
	<u>2,620</u>	<u>1,901</u>	<u>2,520</u>	<u>1,868</u>

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial risk management objectives and policies

Overview

The Group has exposure to credit, liquidity and market risks from its use of financial instruments. This note sets out the Group's key policies and processes for managing these risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a grant provider fails to meet its contractual obligations or if a deposit taker should fail. Since almost all of the Group's current income is derived from grant and interest income from reputable sources as opposed to trade debtors the Group's exposure to credit risk is considered to be inherently low. In order to manage Counterparty risk, Term deposits are with institutions with credit ratings assessed as A or better by both Moody's and Standard & Poor's.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has no debt facilities and a substantial cash balance to fund its operations.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2014

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

It is currently Group policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to twelve months depending upon the rate available. Maturities are staggered whenever possible to spread exposure to interest rate movement. Although the board accepts that this policy neither protects the Group from the risk of receiving rates below the current market rates nor eliminates fully cash flow risk associated with interest receipts, it considers that it achieves an appropriate balance of exposure to these risks. Term deposits are denominated in UK sterling with institutions rated as A or better by both Moody's and Standard & Poor's.

The Directors consider that all of the Group's financial liabilities at the year end and prior year end have maturity dates of less than 12 months from the balance sheet date.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's costs of research and development or the value of its holdings in financial instruments. The Group has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Group's principal market risk exposure is to movements in foreign exchange rates.

Foreign currency risk

Foreign exchange risk arises because the Group from time to time enters into transactions denominated in a currency other than Sterling. Where it is considered that the risk to the Group is significant, it will enter into a matching forward contract with a reputable bank, or hold deposits of the currency in cash. To date no such forward contracts have been entered into, but significant amounts of dollars were held during the year. In the year ended 31 December 2014 approximately 19% (2013:14%) of the Group's annual expenditures was denominated in US dollars and approximately 11% (2013 15%) of the company's expenditure was denominated in Euros.

Exchange rate exposures are managed within approved policy parameters. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Financial assets and liabilities	1,333	6,957	(1,769)	(1,161)

Sensitivity analysis

A 5% strengthening of the US\$ at 31 December 2013 would have resulted in changes to equity and profit or loss by the amounts shown below:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Increase in loss for the period	23	317
Decrease in equity	23	317

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The interest rate for short-term deposits is variable dependent on the rates offered by the Group's bankers. During the period ended 31 December 2013, the short-term deposits returned an average of 0.97% (2013: 1.41%). The Group's exposure to interest rate risk on Other financial assets, is illustrated below with regard to the average cash balance and the difference a decrease of 1% in interest rates would have made based on the average short-term deposit balance of £27,363,772 (2013: £25,802,142)

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Increase in loss for the period	263	258
Decrease in equity	263	258

Capital management

The Group defines the capital that it manages as the Group's total equity. The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to strive to provide returns to investors.
- To provide an adequate return to investors based on the level of risk undertaken.
- To have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for inventive sources and returns to investors.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group has no debt and accordingly the gearing ratio is zero.

Financial instruments

The Group's financial instruments comprise cash, short-term deposits and various items such as trade debtors and creditors which arise directly from operations.

The Group's maximum credit risk at the period end is those amounts due from grant providers of £nil (2013: £nil) and amounts held with financial institutions of £61.0 million (2013: £61.3 million). The Group places its deposits with several reputable financial institutions to minimise its credit risk.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2014

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

Fair values

The fair values of the Group's financial assets and liabilities, together with the carrying values shown in the balance sheet, are as follows:

	Total Carrying Value £000's	Fair Value £000's
31 December 2014		
Loans and receivables		
Other financial asset	36,121	36,121
Cash and cash equivalents	24,864	24,864
Trade and other receivables	7,361	7,361
Other financial liabilities		
Trade and other payables	(4,281)	(4,281)
31 December 2013		
Loans and receivables		
Other financial assets	33,152	33,152
Cash and cash equivalents	28,118	28,118
Trade and other receivables	6,234	6,234
Other financial liabilities		
Trade and other payables	(3,098)	(3,098)

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade receivables, trade payables and cash and cash equivalents

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a reasonable approximation of fair value.

Financial assets – numerical information

As at the 31 December, the Group had the following treasury deposits:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Floating rate assets	24,864	28,118
Fixed rate assets	36,121	33,152
	60,985	61,271

The weighted average interest rate on the fixed term deposits was 0.99% (2013: 0.99%). The weighted average term of fixed interest rate deposits was 4 months (2013: 3 months).

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

14. CURRENT TRADE AND OTHER PAYABLES

	Group		Company	
	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Trade payables	1,317	1,865	1,247	1,857
Taxation and social security	906	242	884	242
Other creditors	-	284	-	284
Accruals and deferred income	2,058	706	1,788	681
	<u>4,281</u>	<u>3,098</u>	<u>3,919</u>	<u>3,065</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases by the Company and Group is 30 days (2013: 30). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

15. PROVISIONS

	Group Dilapidation Provision £000's	Company Dilapidation Provision £000's
Balance at 1 January 2014	200	200
Additional provision in the year	215	215
Balance at 31 December 2014	<u>415</u>	<u>415</u>

The dilapidation provision relates to the leased properties at the Oxford Science Park. The provision is non-current.

16. SHARE CAPITAL

On 8 October 2013, the Company effected a sub-division of its share capital (the "Sub-division") involving the sub-division of each of the Ordinary Shares in the Company, which previously had a nominal value of 1 penny, into 10 Ordinary Shares in the Company with a nominal value of 0.1 pence. Similarly, each A share in the Company, which previously had a nominal value of 5 pence, was subdivided into 10 A shares with a nominal value of 0.5 pence. Other than the change in nominal value, the Sub-division of the 1 penny Ordinary Shares and the 5 pence A shares did not affect the rights or restrictions attached to them respectively.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

16. SHARE CAPITAL (CONTINUED)

All current year and prior year disclosures presented in this Note have been adjusted, as necessary, to reflect the Sub-division such that all disclosures are presented on the same basis and are comparable.

Group and Company

	Year ended 31 December 2014 £	Year ended 31 December 2013 £
Issued and fully paid:		
Opening- 20,851,539 ordinary shares of £0.001 each (2013: 19,171,340)	20,851	19,171
Opening Issued- 810,000 A shares of £0.005 each (2013: 810,000)	4,050	4,050
	<hr/> 24,901	<hr/> 23,221
Issued – 1,256,611 ordinary shares of £0.001 each (2013: 1,680,199)	1,257	1,680
A Share conversion		
Cancelled – 810,000 A Shares of £ 0.005 each (2013: nil)	(4,050)	-
Issued – 381,615 Ordinary shares at £ 0.001 each (2013 : nil)	382	-
Issued – 733,677 Deferred shares at £ 0.005 each (2013 : nil)	3,668	-
	<hr/> 1,257	<hr/> 1,680
Closing – 22,489,765 ordinary shares of £0.001 each (2013: 20,851,539)	22,490	20,851
Closing - nil A shares of £0.005 each (2013:810,000)	-	4,050
Closing – 733,677 deferred shares of £0.005 each (2013:nil)	3,668	-
	<hr/> 26,158	<hr/> 24,901
Total Issued Share Capital	<hr/> <hr/>	<hr/> <hr/>

On 12 August 2014 Oxford Nanopore raised £35 million (\$53 million) through the issuance of 1,217,391 ordinary shares at a share price of £28.75 per share. On 18 October 2013 Oxford Nanopore raised £40 million (\$64 million) through the issuance of 1,626,019 ordinary shares at a share price of £24.60 per share. During the year 39,220 ordinary shares (2013: 54,180) were issued as a result of share options exercised. Transaction costs for the issue of shares are offset against the Share Premium Reserve.

The A Shares were structured so that their holders would be able to benefit from a proportion of the future increase in the value of the Company above a threshold value on an official listing of the Company's shares, a sale of a majority of the Company's issued ordinary share capital, a sale of the trade and assets of the Company or any other return of capital (collectively known as "Exit Events") provided that one of these Exit Events had occurred by 29 January 2015.

In 2010, the Company issued and allotted 810,000 A shares of £0.005 each. In 2013, each A share subdivided into 10 A shares of 0.5 pence each. On 12 August 2014, the 810,000 A shares were converted into 381,615 Ordinary Shares with a nominal value of 0.1 pence each, having the same rights and being subject to the same restrictions and ranking on the same basis as the existing Ordinary shares, and 733,677 Deferred Shares.

Neither the ordinary shares nor the A shares carry any right to fixed income. The Deferred Shares have no voting or dividend rights and only very limited capital return rights, which render them effectively valueless.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2014**

17. NOTES TO THE CASH FLOW STATEMENT

	Group		Company	
	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Group				
Loss before tax	(41,689)	(28,562)	(41,747)	(28,580)
Adjustments for:				
Depreciation	1,037	936	970	899
Loss/ (gain) on disposal of property, plant and equipment	1	(22)	1	(22)
Bank charges and net exchange loss	112	57	112	57
Interest income	(434)	(436)	(433)	(436)
Increase in provisions	215	200	215	200
Employee share benefit costs	2,065	185	2,065	185
Operating cash flows before movements in working capital	(38,693)	(27,640)	(38,818)	(27,696)
Increase in receivables & inventory	(658)	(379)	(596)	(370)
Increase in payables	1,167	1,093	855	1,116
Cash absorbed by operations	(38,184)	(26,927)	(38,559)	(26,951)
Income taxes – R&D tax credit received	4,308	3,657	4,334	3,658
Net cash from operating activities	(33,876)	(23,270)	(34,225)	(23,292)

Cash and cash equivalents

	Group		Company	
	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Cash and bank balances	24,864	28,118	24,594	28,030

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2014

18. COMMITMENTS

As at 31 December 2013, the Group had a commitment to make payments under several operating lease for laboratory and office space with a total commitment over the next 5 years of £ 3,274,754 (2013 - £539,441).

Operating lease arrangements

The Group as lessee

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Minimum lease payments under operating leases recognised as an expense in the year	701	427

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Within one year	974	324
In the second to fifth years inclusive	2,301	215
	3,275	539

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are usually negotiated for an average term of five years.

As at 31 December 2013, the Group had the following non-cancellable commitments under research agreements.

The total of future minimum non-cancellable payments due for each of the following periods are:

	Year ended 31 December 2014 £000's	Year ended 31 December 2013 £000's
Not later than one year	961	1,465
Later than one year and not later than five years	196	1,244
	1,157	2,709

19. SHARE BASED PAYMENTS

Equity-settled share option scheme

The Company operates one equity-settled share based remuneration scheme for employees: the Oxford Nanopore Technologies Share Option Scheme. The Scheme allows the Company to award both HM Revenue & Customs approved Executive Management Incentive (EMI) share options to qualifying individuals and unapproved share options. All options may be subject to performance criteria and vesting schedules set at the Board's discretion. All UK resident employees working 25 hours a week, or if less, 75% of their working time are eligible to be awarded EMI share options, subject to the Group meeting the qualifying tests at the point of Grant. All options have a life of ten years from date of grant.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

19. SHARE BASED PAYMENTS (CONTINUED)

Following the Sub-division of its shares (as described in Note 16), the Company made some minor consequential adjustments to: (i) the number and nominal value of Ordinary Shares in respect of which an Option may be exercised; and (ii) the Option Price, in accordance with the Rules of the Oxford Nanopore Technologies Limited Share Option Scheme. For each outstanding option as at 8 October 2013, the number of shares in respect of which the option may be exercised has been increased by tenfold and the option price reduced to one tenth of the price shown in the option agreement.

All current year and prior year disclosures presented in this Note have been adjusted, as necessary, to reflect the Sub-division such that all disclosures are presented on the same basis and are comparable.

In 2014, the Company granted the following options under the share option scheme over its ordinary shares of £0.001 nominal value: 383,300 options with an exercise price of £14.60 in May; 9,000 options with an exercise price of £17.25 in October; and, 132,075 options with an exercise price of £17.25 in November. The aggregate of the estimated fair values of the options granted on those dates was £8,029,724. In 2013, the aggregate of the estimated fair values of the options granted was £622,717.

	Year ended 31 December 2014		Year ended 31 December 2013	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	1,400,053	1.948	1,428,750	1.304
Granted during the period	524,375	15.313	81,483	12.906
Forfeited during the period	(39,583)	7.168	(56,000)	1.181
Exercised during the period	(39,220)	1.500	(54,180)	1.297
Outstanding at the end of the period	<u>1,845,625</u>	<u>5.626</u>	<u>1,400,053</u>	<u>1.948</u>
Exercisable at the end of the period	<u>1,304,663</u>	<u>2.031</u>	<u>1,249,070</u>	<u>1.342</u>

The weighted average share price at the date of exercise for share options exercised during the period was £1.500 (2013: £1.297). The options outstanding at 31 December 2013 had a weighted average exercise price of £5.626 (2013: £1.948), and a weighted average remaining contractual life of 6.4 years (2013: 6.8 years).

	2014	2013
Weighted average share price	£ 15.31	£7.642
Weighted average exercise price	£15.31	£7.642
Expected volatility	50%	50%
Expected life	10 years	10 years
Risk-free rate	1.34-1.94%	0.69-1.54%
Expected dividend yields	Nil	Nil

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices of comparable companies over various periods of no less than one year. The risk free interest rate used reflects the UK Government 5 year Gilt rate as reported by the Bank of England.

The Group recognised total expenses of £2,064,967 and £185,171 related to equity-settled share-based payment transactions in 2014 and 2013 respectively.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2014**

20. RETIREMENT BENEFITS

The Group operates a Defined Contributions pension scheme for the benefit of its employees. Most of the employees who contribute to the Company's pension scheme do so via salary sacrifice. Following the introduction of Auto-Enrolment in April 2014 the Company makes a contribution to the pension scheme up to 11% of Pensionable Pay. The value of 2014 contributions was £ 468,078 (2013 - £419,176).

21. RELATED PARTY TRANSACTIONS

Details of directors' remuneration are given in note 7.

At the end of the year, there were 162,000 (2013: 165,500) unapproved options issued to non-employees including non-executive directors and consultants.

The Company continued to fund its US subsidiary, Oxford Nanopore Technologies Inc (ONT Inc). During the year, the Company paid ONT Inc £1,709,976 for the R&D and other services provided to it.

22. ULTIMATE CONTROLLING PARTY

The Group is owned by a number of investors, none of whom is deemed to have overall control.