

REGISTERED NUMBER: 06166938 (England and Wales)

CALON CARDIO-TECHNOLOGY LTD
REPORT OF THE DIRECTORS AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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FOR THE YEAR ENDED 31 DECEMBER 2016**

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CALON CARDIO-TECHNOLOGY LTD
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

DIRECTORS: Professor S Westaby
Prof R M Clement
R J Petersen
S B McConchie

SECRETARY: Mrs N Wild

REGISTERED OFFICE: Institute of Life Science
Swansea University
Singleton Park
Swansea
SA2 8PP

REGISTERED NUMBER: 06166938 (England and Wales)

AUDITORS: Bevan & Buckland
Langdon House
Langdon Road
SA1 Swansea Waterfront
Swansea
SA1 8QY

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their report with the financial statements of the company for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was primarily that of developing the next generation of implantable pumps for the treatment of heart failure.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2016 to the date of this report.

Professor S Westaby
Prof R M Clement
R J Petersen

Other changes in directors holding office are as follows:

Dr G D Foster - resigned 7 June 2016

S B McConchie was appointed as a director after 31 December 2016 but prior to the date of this report.

S C Cartmell ceased to be a director after 31 December 2016 but prior to the date of this report.

FINANCIAL REVIEW

During the year the company received income of £288,075 (2015: £518,267) and incurred expenditure of £2,877,304 (2015: £2,003,856) resulting in a financial loss for the year of £2,589,229 (2015: £1,485,589). As a result of the transition to FRS 102 the company was required to recognise share options in the period of £1,207,800 (2015: Nil) resulting in the significant increase in expenditure. At the year end the company had net liabilities of £225,631 (2015: - net assets £357,496).

BASIS OF PREPARATION

The directors have prepared these accounts on a going concern basis, which assumes the company will continue to be able to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements. The company is loss making and has relied on funding from existing funders since incorporation in 2007. To date in 2017 the company has received £639,509. It has received commitment to a further £200,000 investment by the end of September 2017, it has realistic expectations of receiving a further convertible loan within the existing subscription agreement of £325,000 from Finance Wales. Talks are nearing conclusion between lawyers in relation to a large investment round of £40,000,000 in the company, of which, once agreed, £8,500,000 would be received in the next couple of months. The proposed investment of £40,000,000 will take the "MiniVAD" to CE Mark. Taking into account the money already received this year, and the realistic expectation of £8,500,000 before the end of 2017, the Directors believe the company remains a Going Concern.

**REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss of the 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;

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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

ON BEHALF OF THE BOARD:

S B McConchie - Director

20 September 2017

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF CALON CARDIO-TECHNOLOGY LTD

We have audited the financial statements of Calon Cardio-Technology Ltd for the year ended 31 December 2016 on pages six to fifteen. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page three, 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 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 Report of the Directors 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 company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Going Concern

Without qualifying our opinion, we draw your attention to note 1 to the financial statements concerning the company's ability to continue as a going concern and that the Company incurred a net loss of £2,589,229 during the period ending 31 December 2016. The going concern assumption adopted is reliant on the Company receiving significant investment to continue its research and product development which it is currently seeking to secure. This would indicate a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern, particularly if the new funding referred to in note 1 were to be delayed. The financial statements do not include any adjustments which could result if the company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit, the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements, and has been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the company and its environment, we have not identified any material misstatements in the Report of the Directors.

**REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
CALON CARDIO-TECHNOLOGY LTD**

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption from the requirement to prepare a Strategic Report or in preparing the Report of the Directors.

Henry Lloyd Davies (Senior Statutory Auditor)
for and on behalf of Bevan & Buckland
Langdon House
Langdon Road
SA1 Swansea Waterfront
Swansea
SA1 8QY

20 September 2017

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Notes	2016 £	2015 £
TURNOVER		-	-
Administrative expenses		<u>(2,877,304)</u>	<u>(2,003,856)</u>
		(2,877,304)	(2,003,856)
Other operating income		<u>42,792</u>	<u>334,080</u>
OPERATING LOSS	5	<u>(2,834,512)</u>	<u>(1,669,776)</u>
Interest receivable and similar income		<u>2</u>	<u>26</u>
LOSS BEFORE TAXATION		<u>(2,834,510)</u>	<u>(1,669,750)</u>
Tax on loss		<u>245,281</u>	<u>184,161</u>
LOSS FOR THE FINANCIAL YEAR		<u><u>(2,589,229)</u></u>	<u><u>(1,485,589)</u></u>

The notes form part of these financial statements

**BALANCE SHEET
31 DECEMBER 2016**

	Notes	2016 £	£	2015 £	£
FIXED ASSETS					
Patents	6		75,907		74,700
Tangible assets	7		<u>111,890</u>		<u>105,571</u>
			187,797		180,271
CURRENT ASSETS					
Debtors	8	49,112		45,507	
Cash at bank and in hand		<u>167,716</u>		<u>442,205</u>	
		216,828		487,712	
CREDITORS					
Amounts falling due within one year	9	<u>630,256</u>		<u>310,487</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(413,428)</u>		<u>177,225</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(225,631)</u>		<u>357,496</u>
CAPITAL AND RESERVES					
Called up share capital			22,299		19,634
Share premium			7,535,122		6,739,485
Fair value reserve	11		1,207,800		-
Retained earnings			<u>(8,990,852)</u>		<u>(6,401,623)</u>
SHAREHOLDERS' FUNDS			<u>(225,631)</u>		<u>357,496</u>

The financial statements have been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The financial statements were approved by the Board of Directors on 20 September 2017 and were signed on its behalf by:

S B McConchie - Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. GOING CONCERN

The directors have prepared these accounts on a going concern basis, which assumes the company will continue to be able to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements. The company is loss making and has relied on funding from existing funders since incorporation in 2007. To date in 2017 the company has received £639,509. It has received commitment to a further £200,000 investment by the end of September 2017, it has realistic expectations of receiving a further convertible loan within the existing subscription agreement of £325,000 from Finance Wales. Talks are nearing conclusion between lawyers in relation to a large investment round of £40,000,000 in the company, of which, once agreed, £8,500,000 would be received in the next couple of months. The proposed investment of £40,000,000 will take the "MiniVAD" to CE Mark. Taking into account the money already received this year, and the realistic expectation of £8,500,000 before the end of 2017, the Directors believe the company remains a Going Concern.

2. STATUTORY INFORMATION

Calon Cardio-Technology Ltd is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

3. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Patents and licences are being amortised evenly over their estimated useful life of four years.

Amortisation is charged to the income statement.

Assets are reviewed for impairment and any impairment losses are charged to the income statement. Any impairment loss recognised is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery	- Straight line over 4 years
Fixtures and fittings	- Straight line over 4 years
Computer equipment	- Straight line over 4 years

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Assets are reviewed for impairment and any impairment losses are charged to the income statement. Any impairment loss recognised is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

3. ACCOUNTING POLICIES - continued

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the income statement over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is capitalised as an intangible asset when the group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised evenly over the period of expected future benefit. During the period of development the asset is tested for impairment annually.

Research and development tax credits are recognised on receipt.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

3. ACCOUNTING POLICIES - continued

Operating leasing commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to profit or loss in the period to which they relate.

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments granted at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

Where equity-settled arrangements are modified, and are of the benefit to the employee, the incremental fair value is recognised over the period from the date of modification to the date of vesting. Where a modification is not beneficial to the employee there is no change to the charge for the share-based payment.

The company has no cash-settled arrangements.

Cash at bank and in hand

Cash at bank and cash in hand includes cash and short term highly liquid investments with a short maturity of three months or less from the date of acquisition or opening of the deposit or similar account. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

Debtors

Short term debtors are measured at transaction price, less any impairment. Any losses arising from impairment are recognised in the income statement.

Creditors

Short term creditors are measured at transaction price.

Provision for liabilities

Provisions are recognised when the company has a present obligation (legal and constructive) from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably.

Operating lease commitments

Rentals paid under operating leases are charged to the profit and loss account in the period to which they relate.

Functional and Presentation Currency

The company's functional and presentation currency is pounds sterling.

Transition to FRS 102

These financial statements for the year ended 31 December 2016 are the first financial statements that comply with FRS 102 Section 1A small entities. Transition adjustments that have arising and transitional relief applied are stated in the notes to the financial statements. The transition date was 1 January 2015.

4. EMPLOYEES AND DIRECTORS

The average number of employees during the year was 16 .

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

5. OPERATING LOSS

The operating loss is stated after charging:

	2016	2015
	£	£
Depreciation - owned assets	45,022	35,025
Patents and licences amortisation	<u>36,332</u>	<u>30,867</u>

6. INTANGIBLE FIXED ASSETS

	Patents and licences £
COST	
At 1 January 2016	226,899
Additions	<u>37,539</u>
At 31 December 2016	<u>264,438</u>
AMORTISATION	
At 1 January 2016	152,199
Amortisation for year	<u>36,332</u>
At 31 December 2016	<u>188,531</u>
NET BOOK VALUE	
At 31 December 2016	<u>75,907</u>
At 31 December 2015	<u>74,700</u>

All intangible assets relate to patents.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. TANGIBLE FIXED ASSETS

	Plant and machinery £	Fixtures and fittings £	Computer equipment £	Totals £
COST				
At 1 January 2016	177,334	15,004	46,076	238,414
Additions	7,204	42,164	1,973	51,341
At 31 December 2016	<u>184,538</u>	<u>57,168</u>	<u>48,049</u>	<u>289,755</u>
DEPRECIATION				
At 1 January 2016	86,273	12,274	34,296	132,843
Charge for year	34,327	5,467	5,228	45,022
At 31 December 2016	<u>120,600</u>	<u>17,741</u>	<u>39,524</u>	<u>177,865</u>
NET BOOK VALUE				
At 31 December 2016	<u>63,938</u>	<u>39,427</u>	<u>8,525</u>	<u>111,890</u>
At 31 December 2015	<u>91,061</u>	<u>2,730</u>	<u>11,780</u>	<u>105,571</u>

8. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £	2015 £
Other debtors	<u>49,112</u>	<u>45,507</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £	2015 £
Trade creditors	451,757	188,408
Taxation and social security	33,004	17,224
Other creditors	<u>145,495</u>	<u>104,855</u>
	<u>630,256</u>	<u>310,487</u>

Included in other creditors are contributions of £1,880 (2014: £3,250) due to the defined contribution pension scheme operated by the company.

10. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2016 £	2015 £
Within one year	17,156	17,156
Between one and five years	<u>431</u>	<u>17,587</u>
	<u>17,587</u>	<u>34,743</u>

NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016

11. **RESERVES**

	Fair value reserve £
Share option issue	<u>1,207,800</u>
At 31 December 2016	<u>1,207,800</u>

Fair value reserves represents the fair value of share based payment transactions under taken in the year.

12. **CAPITAL COMMITMENTS**

	2016 £	2015 £
Contracted but not provided for in the financial statements	<u>37,996</u>	<u>-</u>

13. **ULTIMATE CONTROLLING PARTY**

The directors consider there to be no ultimate controlling party.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

14. SHARE-BASED PAYMENT TRANSACTIONS

The company established a Share Option Scheme in 2009. Currently there are 38,000 share options outstanding granted under this scheme with an exercise price of £0.05 per ordinary share. There are no performance conditions and options can only be exercised within 10 years of grant in accordance with the Option Scheme.

The company established new EMI and Unapproved Share Option Schemes in 2013. During the year the scheme was cancelled, and all options issued under that scheme were returned. At the previous year end there were 187,250 share options outstanding granted under the scheme with an exercise price of £4.50 per ordinary share. There were no performance conditions and options could only be exercised within 10 years of grant in accordance with the Option Schemes.

During the year the company established a new EMI and Unapproved Share Option scheme. 220,000 share options were issued under the new scheme with an exercise price of £0.01 per ordinary share. There were no performance conditions and options could only be exercised within 10 years of grant in accordance with the Option Scheme.

Between the two schemes options are held by 17 individuals or companies, of which 13 are current directors or companies that the directors are connected and employees of the company.

At 31 December 2016 the company had warrants in issue of:

A Ordinary	@	£3.63	-	30,600	
A Ordinary	@	£4.50	-	8,800	
A Ordinary	@	£4.70	-	3,435	
A Ordinary	@	£5.00	-	11,592	
A Ordinary	@	£5.25	-	7,696	
A Ordinary	@	£0.01	-	17,267	Equity Sweeteners
B Preference	@	£3.63	-	20,600	
B Preference	@	£4.50	-	12,235	
B Preference	@	£5.00	-	12,250	
B Preference	@	£0.01	-	14,909	Equity Sweeteners

15. SHARE CAPITAL

Included in share capital and share premium is an amount of £3,300 and £1,646,691 respectively in relation to B loan notes from Finance Wales which is secured by a charge over the company's assets. The loan holders have the right to serve a Conversion Notice on the Company at any time to convert all of the outstanding B loan notes into fully paid B Preferred Ordinary shares at £5 per share on the conversion date. The loan notes are interest free and are to be repaid or converted by 31 January 2018.

**NOTES TO THE FINANCIAL STATEMENTS - continued
FOR THE YEAR ENDED 31 DECEMBER 2016**

16. TRANSITION TO FRS 102

The following adjustments have arising from the transition to FRS 102:

Holiday pay accrual

On transition to FRS 102 a holiday pay accrual was recognised in the comparative year, decreasing retained earnings and increasing other creditors by £2,523.

Loan notes

On transition to FRS 102 £1,225,000 of B loan notes have been reclassified as equity from creditors. £725,000 was reclassified at the date of transition and a further £500,000 in the comparative year.

Transitional relief

On transition to FRS 102 from previous UK GAAP, the company have taken advantage of transitional relief as follows:

Share based payment transactions

The company have elected not to apply Section 26 Share based payment to equity instruments granted before the date of transition to FRS 102. FRS 20 has been applied to instruments granted prior to the date of transition.

This document was delivered using electronic communications and authenticated in accordance with the registrar's rules relating to electronic form, authentication and manner of delivery under section 1072 of the Companies Act 2006.