

**Quanta Dialysis Technologies Limited (formerly
Quanta Fluid Solutions Limited)**

Annual report and financial statements

Registered number 06641134

For the year ended 31 December 2016

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Strategic report

The directors present their strategic report for the year ended 31 December 2016.

Business review

Objectives

Quanta's vision is to be the world's leading provider of innovative haemodialysis solutions for patient-led care. Our mission is to improve survival and quality of life for renal patients by bringing to market affordable, innovative and convenient products and services.

This is centred around the Company's proprietary, cartridge based, compact haemodialysis system SC+. The Company's short-term objective is to successfully commercialise this unique product.

Key business strategies

The opportunity is significant, dialysis is one of the largest global healthcare markets, valued at \$73 billion in 2016. This is set to substantially grow, with the global number of patients requiring haemodialysis set to almost double by 2025 to over 5 million, driven by common comorbidities such as hypertension and diabetes.

The current treatment model for haemodialysis requires patients to attend clinics three times per week for three to four hour sessions using larger, more technical and less patient friendly dialysis machines. This treatment model is burdensome for patients and despite the huge costs associated with this approach, outcomes are poor with five year survival worse than most forms of cancer. As patient numbers grow, the current model will not be sustainable without new solutions and additional capacity.

Quanta believes that the answer is to drive the adoption of patient-led care both in-centre and at home.

Quanta's SC+ is compact and easy-to-use, and provides an equivalent treatment to traditional in-centre machines. Compared with traditional in-centre devices, SC+ facilitates patient-led care, enabling:

- Greater flexibility of choice;
- Reduced overall cost;
- Better outcomes through the ability to provide high-dose, high-frequency home haemodialysis;
- Greater patient convenience and quality of life; and
- Scalability.

Quanta's commercialisation strategy is to target multiple, high-value market segments where SC+ is highly differentiated. Quanta is currently preparing for commercial launch in its first market, the UK, in 2017, with other markets to follow thereafter.

To ensure that the Company achieves its objectives the Board constantly reviews strategy and performance in the light of external factors such as market conditions and economic outlook.

Risk and uncertainties

As with any start up, there are a number of risks that Quanta has to contend with including: commercialisation ramp-up, adequate recruitment, and production scale. Furthermore, Quanta is presently a pre-commercial company and cannot fund its activities from internally generated cash flow and as the Company grows it will need additional funds. To mitigate this risk the Company is consistently reviewing its fundraising strategy and working with its Board and shareholders to best capitalise the business for the future. Additionally, the Company is focusing its efforts towards the successful commercialisation of SC+.

Development, performance and position

The SC+ haemodialysis system has been granted a CE mark by its notified body, TÜV SÜD, providing regulatory clearance in Europe.

Strategic report (continued)

Additionally, the Company has successfully treated over 50 patients using the SC+ haemodialysis system at several NHS dialysis units in the UK, including Nottingham, London, Manchester and Birmingham.

Key performance indicators

As Quanta is a pre-commercial medical technology company, the most relevant measures of performance are volume and quality of clinical treatments using SC+.

As of the end of 2016, over 660 pilot treatments had been successfully conducted with no reportable adverse events, the results of which were presented in a poster at the Annual Dialysis Conference at Long Beach, California.

The Company has also conducted approximately 45,000 hours of testing of the SC+ system.

We are delighted to have achieved these significant milestones during 2016 and we look forward to building upon this during 2017.

Financial Performance

Expenditure on Research and Development amounted to £5,728,953 representing 52.7% of the total administrative expenditure of £10,871,339. This was a £674,667 increase in Research and Development against 2015 expenditure.

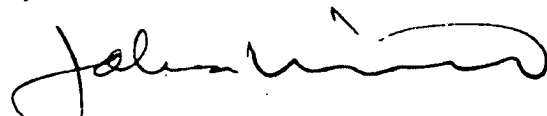
Salary and employment related costs were £5,310,006 (2015: £3,848,595), 48.8% (2015: 47.9%) of total administrative expenditure.

Cash at the end of the financial year 2016 was £6,548,514 (2015: £7,375,522).

Post Balance Sheet Events

On 17th of May 2017 the Company signed a significant subscription to invest in Convertible Loan Notes from its current investors. In addition, also on 17th of May 2017, the Company converted £4.9m of accrued dividends into B Preferred share capital.

By order of the Board



J E Milad
Director

Tything Road
Alcester
Warwickshire
B49 6EU

23 May 2017

Directors' report

The directors present their directors' report for the year ended 31 December 2016.

Research and development

Expenditure on Research and Development in the period was £5,728,953 (2015: £5,054,286) and it was written off to the profit and loss account in the period in which it was incurred in line with IAS 38.

Proposed dividend

The directors do not recommend the payment of an ordinary dividend (2015: £Nil).

Directors

The directors who held office during the year were as follows:

JL De Ruiter
RH Strohmenger
JE Milad
A Constantindes
P Sandys
E Sebellin
G Kerr (resigned 7 February 2016)
F Granata

In accordance with the Articles of Association none of the directors are required to retire by rotation.

Certain directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on pages 1 and 2.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



JE Milad
Director

Tything Road
Alcester
Warwickshire
B49 6EU

23 May 2017

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU 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 estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent Auditor's Report to the members of Quanta Dialysis Technologies Limited

We have audited the financial statements of Quanta Dialysis Technologies Limited for the year ended 31 December 2016 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Independent Auditor's Report to the members of Quanta Dialysis 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, 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.



Greg Watts (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

23 May 2017

Statement of Profit and Loss
for year ended 31 December 2016

	<i>Note</i>	2016 £	2015 £
Other operating income	3	654,675	654,360
Administrative expenses		(10,871,339)	(8,035,946)
Operating loss	4	(10,216,664)	(7,381,586)
Financial income	7	24,987	32,614
Financial expenses	7	(1,806,304)	(5,225)
Net financing expense		(1,781,317)	27,389
Loss before tax		(11,997,981)	(7,354,197)
Taxation	8	(130,935)	(126,028)
Loss for the year		(12,128,916)	(7,480,225)

All of the company's operations are derived from continuing activities.

There are no recognised gains or losses other than those included above and, therefore, no separate statement of other comprehensive income has been presented.

The notes on pages 11 to 26 form part of these financial statements.

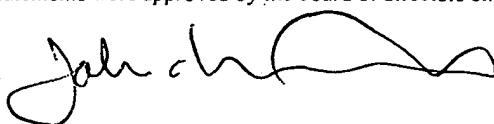
Balance Sheet
at 31 December 2016

	Note	2016 £	2015 £
Non-current assets			
Property, plant and equipment	9	726,121	567,091
Intangible assets	10	49,326	-
Investments	11	100	100
		<u>775,547</u>	<u>567,191</u>
Current assets			
Inventories		16,212	-
Tax receivable		1,020,177	1,028,526
Trade and other receivables	12	348,843	142,862
Cash and cash equivalents	13	6,548,514	7,375,522
		<u>7,933,746</u>	<u>8,546,910</u>
Total assets		<u><u>8,709,293</u></u>	<u><u>9,114,101</u></u>
Current liabilities			
Other interest-bearing loans and borrowings	14	1,948,189	-
Trade and other payables	15	1,623,543	1,419,683
		<u>3,571,732</u>	<u>1,419,683</u>
Non-current liabilities			
Other interest-bearing loans and borrowings	14	8,161,450	-
Other payables	15	4,046,567	1,871,512
		<u>12,208,017</u>	<u>1,871,512</u>
Total liabilities		<u><u>15,779,749</u></u>	<u><u>3,291,195</u></u>
Net assets		<u><u>(7,070,456)</u></u>	<u><u>5,822,906</u></u>
Equity			
Share capital	17	794,650	778,796
Share premium		45,249,902	43,857,748
Retained earnings		(53,115,008)	(38,813,638)
Total equity		<u><u>(7,070,456)</u></u>	<u><u>5,822,906</u></u>

The notes on pages 11 to 26 form part of these financial statements.

These financial statements were approved by the board of directors on 23 May 2017 and were signed on its behalf by:

John E Milad
Director



Company registered number: 06641134

Statement of Changes in Equity

	Share capital	Share Premium	Retained earnings	Total equity
	£	£	£	£
Balance at 1 January 2015	696,215	36,821,337	(29,733,787)	7,783,765
Total comprehensive income for the year				
Loss	-	-	(7,480,225)	(7,480,225)
Transactions with owners, recorded directly in equity				
Issue of shares	82,581	7,036,411	-	7,118,992
Equity-settled share based payment transactions	-	-	(3,209)	(3,209)
Dividends	-	-	(1,596,417)	(1,596,417)
Total contributions by and distributions to owners	82,581	7,036,411	(1,599,626)	5,519,366
Balance at 31 December 2015	778,796	43,857,748	(38,813,638)	5,822,906
Balance at 1 January 2016	778,796	43,857,748	(38,813,638)	5,822,906
Total comprehensive income for the year				
Loss	-	-	(12,128,916)	(12,128,916)
Transactions with owners, recorded directly in equity				
Issue of shares	15,854	1,392,154	-	1,408,008
Equity-settled share based payment transactions	-	-	2,601	2,601
Dividends	-	-	(2,175,055)	(2,175,055)
Total contributions by and distributions to owners	15,854	1,392,154	(2,172,454)	(764,446)
Balance at 31 December 2016	794,650	45,249,902	(53,115,008)	(7,070,456)

Cash Flow Statement
for year ended 31 December 2016

	Note	2016 £	2015 £
Cash flows from operating activities			
Loss for the year		(12,128,916)	(7,480,225)
Adjustments for:			
Depreciation, amortisation and impairment		333,591	223,625
Foreign exchange losses		777,721	-
Financial income		(24,987)	(32,614)
Financial expense		1,028,583	5,225
Equity settled share-based payment expenses		2,601	(3,209)
Taxation		130,935	126,028
		<hr/>	<hr/>
Increase in trade and other receivables	12	(9,880,472)	(7,161,170)
Increase in inventories		(104,523)	(612,608)
Increase in trade and other payables	15	(16,212)	-
		203,544	258,815
		<hr/>	<hr/>
Tax received		(9,797,663)	(7,514,963)
		441,957	-
		<hr/>	<hr/>
Net cash from operating activities		(9,355,706)	(7,514,963)
		<hr/>	<hr/>
Cash flows from investing activities			
Interest received		24,987	32,614
Acquisition of property, plant and equipment	9	(492,371)	(472,738)
Acquisition of other intangible assets	10	(49,576)	-
		<hr/>	<hr/>
Net cash from investing activities		(516,960)	(440,124)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from the issue of share capital	17	1,408,027	7,118,992
Proceeds from new loan		8,449,030	-
Interest paid		(811,399)	(5,225)
		<hr/>	<hr/>
Net cash from financing activities		9,045,658	7,113,767
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(827,008)	(841,320)
Cash and cash equivalents at 1 January		7,375,522	8,216,842
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	13	6,548,514	7,375,522
		<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

Quanta Dialysis Technologies Limited (formerly Quanta Fluid Solutions Limited) (the "Company") is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s402 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

1.2 Measurement convention

The financial statements are prepared on the historical cost basis.

1.3 Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons. The directors have prepared projected cash flow information for the next twelve months from the date of their approval of these financial statements and this shows that the Company will need to source new funds in order to achieve its strategic objectives. The directors have started discussions with new and existing investors on securing these funds and, based on feedback from investors, believe it is probable that the company will raise sufficient resources to continue operations throughout the next twelve months from the date of approval of these financial statements.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.5 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Notes (continued)

1 Accounting policies (continued)

1.6 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- plant, equipment and tools 3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.8 Intangible assets and goodwill

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the statement of profit or loss and other comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

1.8 Intangible assets and goodwill (continued)

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- other intangible assets 3 years
- software costs 3 years

1.9 Impairment excluding inventories, and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes (continued)

1 Accounting policies (continued)

1.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

1.11 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

1.12 Taxation

Tax on the profit or loss 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 directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Government Grants

Government grants are credited to the statement of profit and loss in the same period as the costs to which they relate are incurred.

1.14 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS9 - Financial Instruments. This standard will be applicable for years commencing on or after 1 January 2018. This standard reduces the number of financial instrument categories to two: amortised cost and fair value. This standard also stipulates that debt instruments may only be classified as at amortised cost when they are payments of principal and interest, so all other debt should be recognised at fair value.
- IFRS 15 - Revenue from Contracts with Customers. Effective for periods beginning on or after 1 January 2018. The Company is assessing the impact of this standard, although it is not expected to have a significant impact on the Company's assets and liabilities.
- IFRS 16 Leases - The main impact of this standard is that a lease contract is considered as a right to use the asset identified in the contract, thus it should be recognised as an asset and the debt for future payments as a liability. Effective for periods beginning on or after 1 January 2019. Pending adoption by the European Union. The Company is assessing the impact of this standard, which is not expected to be significant.

2 Accounting estimates and judgements

Senior Management have considered the key assumptions concerning the future and key sources of estimation and uncertainty at the balance sheet date and do not believe that there are any that may cause material adjustment to the carrying amounts of assets or liabilities within the next financial year.

3 Other operating income

	2016 £	2015 £
Government grants	-	31,894
Research & Development Tax Credit	654,675	622,466
	<u>654,675</u>	<u>654,360</u>

Notes (continued)

4 Expenses and auditor's remuneration

Included in loss for the year are the following:

	2016 £	2015 £
Research and development expensed as incurred	5,728,953	5,054,286
<i>Auditor's remuneration</i>		
Audit of these financial statements	28,000	28,605

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2016	2015
Production	78	51
Administration	12	7
	90	58

The aggregate payroll costs of these persons were as follows:

	2016 £	2015 £
Wages and salaries	4,623,626	3,355,833
Share based payments	2,601	(3,209)
Social security costs	498,692	379,484
Contribution to defined contribution plans	185,087	116,487
	5,310,006	3,848,595

6 Directors' remuneration

	2016 £	2015 £
Directors' remuneration	369,028	318,710
Company contributions to money purchase pension plans	11,400	11,550
Amounts paid to third parties in respect of directors' services	-	2,109
	380,428	332,369

Remuneration of the highest paid director was £269,028 (2015: £258,710) and company pension contributions of £11,400 (2015: £11,550) were made to a money purchase scheme on his behalf.

Notes (continued)

6 Directors' remuneration (continued)

	Number of directors 2016	2015
Retirement benefits are accruing to the following number of directors under: Money purchase schemes	1	1
The number of directors who exercised share options was	-	1

7 Finance income and expense

Recognised in profit or loss

	2016 £	2015 £
Finance income		
Bank interest	24,987	32,362
Net foreign exchange gain	-	252
Total finance income	24,987	32,614
Finance expense		
Other interest	7,129	5,225
Loan interest	950,631	-
Loan costs amortisation	70,823	-
Net foreign exchange loss	777,721	-
Total finance expense	1,806,304	5,225

Costs in relation to raising the loan in the year of £8.7m were £288,000 and are being amortised over the life of the loan to 2020.

Notes (continued)

8 Taxation

Recognised in the income statement

	2016 £	2015 £
Current year tax expense	130,935	130,415
Adjustments for prior years	-	(4,387)
Current tax expense	130,935	126,028
Total tax expense	130,935	126,028

Reconciliation of effective tax rate

	2016 £	2015 £
Loss for the year	(12,128,916)	(7,480,225)
Total tax expense	130,935	126,028
Loss excluding taxation	(11,997,981)	(7,354,197)
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	(2,399,596)	(1,489,225)
Reduction in tax rate on deferred tax balances	726,562	765,981
Non-deductible expenses	7,912	23,839
Research and development tax credit	130,935	126,028
Current year losses for which no deferred tax asset was recognised	1,663,944	701,099
(Over)/under provided in prior years	-	(4,387)
Other timing differences	1,178	2,693
Total tax expense	130,935	126,028

At 31 December 2016, the Company had unrecognised deferred tax assets of £8,415,042 (2015: £6,733,024)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Notes (continued)

9 Property, plant and equipment

	Plant, equipment and tools £	Under- construction £	Total £
Cost			
Balance at 1 January 2015	1,628,086	-	1,628,086
Additions	472,738	-	472,738
Disposals	(101,763)	-	(101,763)
Balance at 31 December 2015	1,999,061	-	1,999,061
Balance at 1 January 2016	1,999,061	-	1,999,061
Additions	467,521	24,850	492,371
Balance at 31 December 2016	2,466,582	24,850	2,491,432
Depreciation and impairment			
Balance at 1 January 2015	1,310,108	-	1,310,108
Depreciation charge for the year	223,625	-	223,625
Disposals	(101,763)	-	(101,763)
Balance at 31 December 2015	1,431,970	-	1,431,970
Balance at 1 January 2016	1,431,970	-	1,431,970
Depreciation charge for the year	333,341	-	333,341
Balance at 31 December 2016	1,765,311	-	1,765,311
Net book value			
At 1 January 2015	317,978	-	317,978
At 31 December 2015 and 1 January 2016	567,091	-	567,091
At 31 December 2016	701,271	24,850	726,121

Notes (continued)

10 Intangible Assets

	Software costs £	Other Intangible Assets £	Total £
Cost			
Balance at 1 January 2016	-	-	-
Other acquisitions – externally purchased	19,576	30,000	49,576
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	19,576	30,000	49,576
	<hr/>	<hr/>	<hr/>
Amortisation and impairment			
Balance at 1 January 2016	-	-	-
Amortisation charge for the year	-	250	250
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	-	250	250
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 January 2016	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 December 2016	19,576	29,750	49,326
	<hr/>	<hr/>	<hr/>

11 Investments in subsidiaries

The Company has the following investments in subsidiaries with a cost and net book value of £100 as at 31 December 2016 (31 December 2015: £100):

	Country of Incorporation	Class of shares held	Ownership 2016	Ownership 2015
Quanta Fluid Solutions Limited (formerly Quanta Dialysis Technologies Ltd)	England	Ordinary	100%	100%

The company was dormant throughout both year ended 31 December 2016 and 31 December 2015. On 1 July 2016, the subsidiary changed its name from Quanta Dialysis Technologies Limited to Quanta Fluid Solutions Limited.

Notes (continued)

12 Trade and other receivables

	2016 £	2015 £
Trade receivables	-	14,355
Other receivables	134,204	6,990
Prepayments	214,639	121,517
	<u>348,843</u>	<u>142,862</u>

13 Cash and cash equivalents

	2016 £	2015 £
Cash and cash equivalents per balance sheet	6,548,514	7,375,522
Cash and cash equivalents per cash flow statements	<u>6,548,514</u>	<u>7,375,522</u>

14 Other interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Company's exposure to interest rate and foreign currency risk, see note 18.

	2016 £	2015 £
Non-current liabilities		
Secured loans	8,161,450	-
Current liabilities		
Secured loans	<u>1,948,189</u>	-

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2016 £	Carrying amount 2016 £	Face value 2015 £	Carrying amount 2015 £
Secured Loan	USD	14.79%	2020	8,403,837	10,109,639	-	-

On 31 March 2016, the Company entered into a loan agreement with Hercules Capital Inc. and a debenture was registered in favour of Hercules Capital Inc. The amount drawn down against this loan agreement amounted to \$12.5 million. The debenture gives Hercules Capital Inc. rights over the Company's assets in the event that the Company materially defaults on the terms of the loan.

Notes (continued)

15 Trade and other payables

	2016 £	2015 £
Current		
Trade payables	707,702	597,889
Other taxes and social security	144,429	-
Non-trade Payables and accrued expenses	771,412	821,794
	<u>1,623,543</u>	<u>1,419,683</u>
Non-current		
Other payables	4,046,467	1,871,412
Amounts owed to group undertakings	100	100
	<u>4,046,567</u>	<u>1,871,512</u>

Other non-current payables includes dividends of £4,046,467 (2015: £1,871,412) due to the holders of the 7% cumulative redeemable "B" preference shares.

16 Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan. The total expense relating to the plan in the current year was £185,087 (2015: £116,487).

Share-based payments

Share options are granted to directors and employees. The exercise price of the granted options is £1.00. Options are conditional on the employee completing four years' service (vesting period). The options are exercisable on a Sale exit, Liquidation exit, and Flotation exit; or earlier, and if the Directors at the relevant time agree, within 90 days of the Option Holder ceasing to be an Eligible Employee. The share options have a contractual option term of ten years. Quanta has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price in £ per share option	Number of options	Average exercise price in £ per share option	Number of options
At 1 January	1.00	71,055	1.00	69,359
Granted	-	-	1.00	11,067
Forfeited	1.00	(3,100)	1.00	(700)
Exercised	1.00	(1,238)	1.00	(8,671)
	<u>1.00</u>	<u>66,717</u>	<u>1.00</u>	<u>71,055</u>
As at 31 December	1.00	66,717	1.00	71,055

Notes (continued)

16 Employee benefits (continued)

Share-based payments (continued)

Out of the 66,717 outstanding options (2015: 71,055), 57,366 options (2015: 46,809) were exercisable.

Options exercised in 2016 resulted in 1,238 shares (2015: 8,671) being issued at a weighted average price of £1.00 each (2015: £Nil). The related weighted average share price at the time of exercise was £1.00 (2015: £1.00) per share. Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant-vest	Expiry date	Exercise price in £ per share option	Share Options	
			2016	2015
2010-2014	02/02/2020	1.00	2,996	2,996
2010-2014	08/03/2020	1.00	247	247
2011-2015	10/07/2021	1.00	2,964	2,964
2012-2016	03/07/2022	1.00	247	247
2013-2017	16/01/2023	1.00	974	974
2014-2018	17/02/2024	1.00	20,370	21,358
2014-2018	23/02/2024	1.00	13,530	13,530
2014-2018	13/03/2024	1.00	4,504	4,754
2014-2018	18/12/2024	1.00	11,818	13,018
2015-2019	12/10/2025	1.00	7,169	9,169
2015-2019	22/12/2025	1.00	1,798	1,798
			66,617	71,055

The weighted average fair value of options granted during the year determined using the Black-Scholes valuation model was £0.24 per option (2015: £0.24). The significant inputs into the model were weighted average share price of £1.00 (2015: £1.00) at the grant date, exercise price of £1.00 (2015: £1.00), volatility of 30% (2015: 30%) dividend yield of 0.0% (2015: 0.0%), an expected option life of three years (2015: three years) and an annual risk-free interest rate of 2.7% (2015: 2.7%). The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last five years. See note 5 for the total expense recognised in the income statement for share options granted to directors and employees.

17 Capital and reserves

Share capital

	Preference shares of £ 1 each		Ordinary shares	
	2016	2015	2016	2015
On issue at 1 January	673,125	599,215	105,671	97,000
Issued for cash	14,616	73,910	1,238	8,671
On issue at 31 December – fully paid	687,741	673,125	106,909	105,671

Notes (continued)

17 Capital and reserves (continued)

	2016 £	2015 £
<i>Allotted, called up and fully paid</i>		
"A" Ordinary shares of £1 each	87,000	87,000
"B" Ordinary shares of £1 each	19,909	18,671
Redeemable "A" preference shares of £1 each	367,172	367,172
7% Cumulative redeemable "B" preference shares of £1 each	320,569	305,953
	<hr/>	<hr/>
	794,650	778,796
	<hr/>	<hr/>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The "A" and "B" preference shares are redeemable on an exit of the Company by way of sale or flotation or by October 2019 if an exit has not. Subject to sufficient proceeds being available, the holders of the "B" preference shares would receive the issue price plus the cumulative dividend that has rolled up on the "B" preference shares since issue. The "A" preferred shares, which are subordinate to the "B" preferred shares, would, if sufficient exit proceeds are available, then receive their issue price. Any further remaining proceeds from an exit would be split *pari passu* amongst the holders of the "A" and "B" Ordinary Shares.

The holders of the "A" and "B" Preferred Shares are entitled to one vote per share at meetings of the Company.

During the year, the Company issued 1,238 £1 B Ordinary shares for consideration of £1,238 settled in cash.

18 Financial Instruments and related disclosure

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk; and
- liquidity risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The board of directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established by the board of directors to identify and analyse the risks faced by the Company to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in activities. In conjunction with these policies, the Company offers training and development to instil a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

Other receivables and amounts due from fellow group undertakings

The Company's exposure to credit risk is deemed low because the Company has not yet entered a commercialisation phase and is therefore not yet making sales. At the balance sheet date, there are therefore no significant concentrations of credit risk. The maximum exposure is represented by the carrying amount of each financial asset in the balance sheet.

Notes (continued)

18 Financial Instruments and related disclosure (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company regularly reviews its cash flow requirements and ensures sufficient funds are available to meet its liabilities as they fall due. See note 1 for information on the Company's going concern position.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2016	Carrying amount £	Contractual cash flows £	6 months or less £	6-12 months £	More than 1 year £
<i>Non-derivative financial liabilities</i>					
Other interest-bearing loans and borrowings	10,109,639	10,109,639	472,965	1,475,224	8,161,450
Trade and other payables	1,623,543	1,623,543	1,623,543	-	-
Other payables	4,046,567	4,046,567	-	-	4,046,567
	<u>15,779,749</u>	<u>15,779,749</u>	<u>2,096,508</u>	<u>1,475,224</u>	<u>12,208,017</u>
 31 December 2015	 Carrying amount £	 Contractual cash flows £	 6 months or less £	 6-12 months £	 More than 1 year £
<i>Non-derivative financial liabilities</i>					
Trade and other payables	1,419,683	1,419,683	1,419,683	-	-
Other payables	1,871,512	1,871,512	-	-	1,871,512
	<u>3,291,195</u>	<u>3,291,195</u>	<u>1,419,683</u>	<u>-</u>	<u>1,871,512</u>

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Capital management

The capital structure of the Company consists of shareholders' equity. At 31 December 2016, shareholders' equity amounted to (£7,070,456) (2015: £5,822,906). The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business.

Notes (continued)

19 Operating leases

At 31 December 2016, Company had annual commitments under non-cancellable operating leases as follows:

	2016 £	2015 £
Less than one year	76,501	11,093
Between one and five years	15,262	109,167
	<u>91,763</u>	<u>120,260</u>

During the year, £121,454 was recognised as an expense in the income statement in respect of operating leases (2015: £103,751).

20 Related parties

Identity of related parties with which the Company has transacted

On 24 October 2015, the Company entered into a 3 year lease agreement with IMI Property Investments Limited for rent of property at an annual rental of £54,000. IMI Property Investments Limited is part of IMI plc that contains IMI Vision Limited who is a significant shareholder of the Company holding 23.4% of the issued share capital at 31 December 2016. This annual obligations is included within Operating Leases disclosed within Note 19.

Transactions with key management personnel

Directors of the Company and their immediate relatives control 1.48% per cent of the voting shares of the Company.

21 Subsequent events

On 17th of May 2017 the company received a significant cash injection from the sale Convertible Loan Notes from its current investors. In addition, also on 17th of May 2017, the company converted £4.9m of accrued dividends into B Preferred share capital.

22 Ultimate parent company and parent company of larger group

No other group financial statements include the results of the Company.