

Consolidated Financial Statements

Autifony Therapeutics Limited

31 December 2016

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AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2016

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AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2016

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Berriman
C Large
C Bingham
M Bhaman
E Jones
A Pande

REGISTRATION NUMBER

07543962

REGISTERED OFFICE

Stevenage Bioscience Catalyst
Gunnels Wood Road
Stevenage
Hertfordshire
SG1 2FX

INDEPENDENT AUDITOR

Grant Thornton UK LLP
Chartered Accountants & Statutory Auditor
101 Cambridge Science Park
Milton Road
Cambridge
Cambridgeshire
CB4 0FY

BANKERS

Barclays Bank
1 Churchill Place
London
E14 5HP

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2016

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2016.

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

PRINCIPAL ACTIVITY

The principal activity of the company is drug discovery research.

DIRECTORS

The directors who served throughout the year are shown below:

J Berriman
C Large
C Bingham
M Bhaman
E Jones
A Pande

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing 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 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 and profit or loss of the company and group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2016

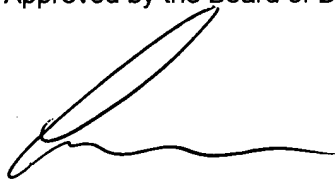
DIRECTORS' REPORT (CONTINUED)

AUDITOR

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

Approved by the Board of Directors on 11 April 2017 and signed on behalf of the Board

A handwritten signature in black ink, consisting of a large, stylized 'C' followed by a horizontal line.

C Large

Director

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTIFONY THERAPEUTICS LIMITED

Independent auditor's report to the members of Autifony Therapeutics Limited

We have audited the consolidated financial statements of Autifony Therapeutics Limited for the year ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the group 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 group 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 group's and of the company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the 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.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's ability to continue as a going concern. The group had cash reserves at 31 December 2016 of £4,816,411 but incurred a net loss of £4,943,137 during the year ended 31 December 2016. This loss, along with the other matters explained in note 2, indicates the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern, should additional funding not be available. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2016

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.
- the Directors' Report has been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

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 take advantage of the small companies exemption from the requirement to prepare a Strategic Report or in preparing the Directors' report.

Grant Thornton UK LLP

Alison Seekings

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

Cambridge

Date: *4 May 2017*

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2016

	Note	2016 £	2015 £
Other income	9	1,553,317	1,125,285
Research and development		(6,172,714)	(5,878,183)
General and administration		(1,182,181)	(1,104,282)
OPERATING LOSS	3	(5,801,578)	(5,857,180)
Finance income	13	23,004	26,354
Finance expense	13	(698)	(1,006)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,779,272)	(5,831,832)
Taxation	12	821,745	575,897
LOSS FOR THE YEAR		(4,957,527)	(5,255,935)
Other comprehensive income			
Foreign currency translation differences		14,390	(3,516)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(4,943,137)	(5,259,451)

All amounts relate to continuing operations.

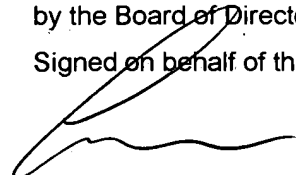
AUTIFONY THERAPEUTICS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	Note	2016 £	2015 £
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	5	431,833	516,833
Property, plant & equipment	6	65,240	49,807
TOTAL NON-CURRENT ASSETS		497,073	566,640
CURRENT ASSETS			
Trade and other receivables	8	1,232,944	827,339
Cash and cash equivalents		4,816,411	9,885,346
TOTAL CURRENT ASSETS		6,049,355	10,712,685
TOTAL ASSETS		6,546,428	11,279,325
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	1,890,345	1,680,103
TOTAL CURRENT LIABILITIES		1,890,345	1,680,103
EQUITY			
Share capital	15	26,897	26,899
Capital Redemption Reserve		2	-
Share premium account		24,760,825	24,760,825
Other components of equity		7,056	(7,334)
Retained earnings		(20,138,697)	(15,181,168)
TOTAL EQUITY		4,656,083	9,599,222
TOTAL LIABILITIES AND EQUITY		6,546,428	11,279,325

The financial statements of Autifony Therapeutics Limited, registered number 07543962, were approved by the Board of Directors and authorised for issue on 11 April 2017.

Signed on behalf of the Board of Directors



C Large
Director

AUTIFONY THERAPEUTICS LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	Note	2016	2015
		£	£
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	5	431,833	516,833
Property, plant & equipment	6	26,687	7,105
Investment	4	8,602	8,602
TOTAL NON-CURRENT ASSETS		467,122	532,540
CURRENT ASSETS			
Trade and other receivables	8	1,178,117	770,461
Cash and cash equivalents		4,704,923	9,840,485
TOTAL CURRENT ASSETS		5,883,040	10,610,946
TOTAL ASSETS		6,350,162	11,143,486
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	1,826,112	1,626,024
TOTAL CURRENT LIABILITIES		1,826,112	1,626,024
EQUITY			
Share capital	15	26,897	26,899
Capital Redemption Reserve		2	-
Share premium account		24,760,825	24,760,825
Retained earnings		(20,263,674)	(15,270,262)
TOTAL EQUITY		4,524,050	9,517,462
TOTAL LIABILITIES AND EQUITY		6,350,162	11,143,486

The company has taken the exemption under section 408 of the Companies Act 2006 to present a full statement of comprehensive income. The loss for the year incurred by the company was £4,993,410 (2015: £5,276,131).

The financial statements of Autifony Therapeutics Limited, registered number 07543962, were approved by the Board of Directors and authorised for issue on 11 April 2017.

Signed on behalf of the Board of Directors



C Large
Director

AUTIFONY THERAPEUTICS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2016

	Share capital £	Capital Redemption Reserve £	Share premium £	Other components of equity £	Retained earnings £	Total equity £
Balance at 1 January 2015	19,778	-	16,823,373	(3,818)	(9,925,233)	6,914,100
Issue of share capital	7,121	-	7,937,452	-	-	7,944,573
Transactions with owners	7,121	-	7,937,452	-	-	7,944,573
Loss for the year and total comprehensive income	-	-	-	(3,516)	(5,255,935)	(5,259,451)
Balance at 31 December 2015	26,899	-	24,760,825	(7,334)	(15,181,168)	9,599,222
Issue of share capital	41	-	-	-	-	41
Cancellation of shares	(43)	2	-	-	(2)	(43)
Transactions with owners	(2)	2	-	-	(2)	(2)
Loss for the year and total comprehensive income	-	-	-	14,390	(4,957,527)	(4,943,137)
Balance at 31 December 2016	26,897	2	24,760,825	7,056	(20,138,697)	4,656,083

AUTIFONY THERAPEUTICS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY For the year ended 31 December 2016

	Share capital £	Capital Redemption Reserve £	Share premium £	Other components of equity £	Retained earnings £	Total equity £
Balance at 1 January 2015	19,778	-	16,823,373	-	(9,994,131)	6,849,020
Issue of share capital	7,121	-	7,937,452	-	-	7,944,573
Transactions with owners	7,121	-	7,937,452	-	-	7,944,573
Loss for the year and total comprehensive income	-	-	-	-	(5,276,131)	(5,276,131)
Balance at 31 December 2015	26,899	-	24,760,825	-	(15,270,262)	9,517,462
Issue of share capital	41	-	-	-	-	41
Cancellation of shares	(43)	2	-	-	(2)	(43)
Transactions with owners	(2)	2	-	-	(2)	(2)
Loss for the year and total comprehensive income	-	-	-	-	(4,993,410)	(4,993,410)
Balance at 31 December 2016	26,897	2	24,760,825	-	(20,263,674)	4,524,050

AUTIFONY THERAPEUTICS LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

For the year ended 31 December 2016

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Cash flows from operating activities				
Loss before income tax	(5,779,272)	(5,831,832)	(5,815,155)	(5,864,011)
Finance income	(23,004)	(26,354)	(23,004)	(26,354)
Finance expense	698	1,006	59	1,006
Depreciation and amortisation	122,025	113,207	88,811	94,193
Exchange differences	-	10,066	-	-
	(5,679,553)	(5,733,907)	(5,749,289)	(5,795,166)
Changes in working capital				
(Increase)/decrease in trade and other receivables	416,140	(455,257)	414,089	(335,451)
(Decrease)/increase in trade and other payables	210,245	1,084,003	200,088	1,144,308
Net cash used in operations	(5,053,168)	(5,105,161)	(5,135,112)	(4,986,309)
Taxation received	-	575,897	-	587,880
Net cash used in operating activities	(5,053,168)	(4,529,264)	(5,135,112)	(4,398,429)
Cash flows from investing activities				
Finance income	23,004	26,354	23,004	26,354
Purchase of property, plant and equipment	(35,471)	(25,175)	(23,393)	(7,502)
Net cash (used in)/generated from investing activities	(12,467)	1,179	(389)	18,852
Cash flows from financing activities				
Finance expense	(698)	(1,006)	(59)	(1,006)
Proceeds from issue of shares	(2)	7,944,673	(2)	7,944,673
Net cash (used in)/generated from financing activities	(700)	7,943,667	(61)	7,943,667
Movements in cash and cash equivalents in the period	(5,066,335)	3,415,582	(5,135,562)	3,564,090
Cash and cash equivalents at start of period	9,885,346	6,480,516	9,840,485	6,276,395
Exchange difference on cash and cash equivalents	(2,600)	(10,752)	-	-
Cash and cash equivalents at end of period	4,816,411	9,885,346	4,704,923	9,840,485

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

1. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRSs

Autifony Therapeutics Limited, the Group's ultimate parent company, is a limited liability company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Registration number 07543962). The address of the registered office and principal place of business is Stevenage Bioscience Catalyst, Gunnels Wood Road, Stevenage, Hertfordshire, SG1 2FX.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements for the year ended 31 December 2016 (including comparatives) were approved and authorised for issue by the board of directors on ~~dd mm 2017~~.

IFRS is subject to amendment and interpretation by the IASB and the IFRS Interpretations Committee, and there is an on-going process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 December 2016.

The principal activity of Autofony Therapeutics Limited and its subsidiaries (the Group) is drug discovery research.

2. ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

Basis of consolidation

The Group financial statements consolidate those of the parent company and all of its subsidiaries as of 31 December 2016. All subsidiaries have a reporting date of 31 December.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies.

Going concern

These financial statements have been prepared on a going concern basis which assumes that the group will continue as a going concern for the foreseeable future, being a period of not less than 12 months from the date of approval of the accounts.

The group is involved in research and development activities and until it is able to convert the activity into a significant revenue stream it relies on investor funding, grant funding and potential payments from corporate partners. Based on current forecasts for the group further funding is required during 2017 to support the range of projects being undertaken by the group. Given the progress to date, committed grant funding and on-going discussions with potential corporate partners, the Directors are of the opinion that sufficient funding will be available; for this reason the Directors continue to apply the going concern basis.

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

The consolidated financial statements are presented in Pounds Sterling, which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the profit or loss.

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than Pounds Sterling are translated into Pounds Sterling upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into Pounds Sterling at the closing rate at the reporting date. Income and expenses have been translated into Pounds Sterling at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

Grant income

Grant receipts are credited to other operating income as the related expenditure is incurred. At the year end, any grants submitted but not yet received are accrued for.

Interest

Interest income is credited to the Statement of Comprehensive Income as the income is received.

Intangible assets

Intellectual property rights are accounted for using the cost model whereby capitalised costs are amortised on a straight line basis over their estimated useful lives. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The following useful lives are applied:

Intellectual property rights	-	10% straight line
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Research and development expenditure

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same year unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period from which the company is expected to benefit.

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life. The following depreciation rates are applied for the group:

Office equipment	-	33.33% straight line
Laboratory equipment	-	33.33% straight line

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within general and administration expenses.

Operating leases

Rentals under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Impairment of non-financial assets

For intellectual property rights the Group performs impairment testing where there are indicators of impairment. If such an indicator exists, the recoverable amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognised in the Group profit or loss.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's recoverable amount exceeds its carrying amount.

Financial instruments

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes party to the contractual provisions of the instrument.

Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are de-recognised when the obligation specified in the contract is discharged, cancelled or expired.

Post-employment benefit plans

The Group pays fixed contributions into independent entities for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that related employee services are received.

Short-term employee benefits

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other obligations, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

2. ACCOUNTING POLICIES (CONTINUED)

Taxation

Tax expense recognised in profit or loss comprises the sum of deferred tax and current tax not recognised in other comprehensive income or directly in equity and includes tax incentives for research and development.

Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income taxes are calculated using the liability method.

Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilised against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit.

Deferred tax liabilities are generally recognised in full, although IAS 12 'Income Taxes' specifies limited exemptions. As a result of these exemptions the Group does not recognise deferred tax on temporary differences relating to goodwill, or to its investments in subsidiaries.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and demand deposits.

Equity

Share capital represents the nominal (par) value of shares that have been issued.

Share premium includes and premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Other components of equity include the following:

Translation reserve	-	comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into Pounds Sterling.
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Retained earnings includes all current and prior period retained profits and share-based employee remuneration.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

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

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

2. ACCOUNTING POLICIES (CONTINUED)

Estimation uncertainty

Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Standards and interpretations to existing standards (all of which have yet to be adopted by the EU) which are not yet effective and are under review as to their impact on the Group

The following standards and interpretations to existing standards have been published but are not mandatory for the Group's accounting period beginning 1 January 2016 and the Group has not early adopted:

- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018)
- IFRS 9 Financial Instruments (effective date 1 January 2018)
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (not yet endorsed)
- IFRS 16 Leasing (effective 1 January 2019)

The assessment of IFRS 15 on revenue and IFRS 16 on leases will be completed based on future revenue and operating lease arrangements. IFRS 16 will require operating leases, including property rental arrangements, to be reflected within the Statement of Financial Position. The group does not expect other published standards, amendments or interpretations to have a material impact on the consolidated financial statements when they become effective.

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

3. OPERATING LOSS

An analysis of the Group's operating loss has been arrived at after charging/(crediting):

	Group 2016 £	2015 £	Company 2016 £	2015 £
Operating loss is after charging:				
Amortisation of patents	85,000	85,020	85,000	85,020
Depreciation of tangible assets	37,025	28,187	3,810	9,173
Operating leases – land and buildings	22,233	19,632	22,233	19,632
Auditors' remuneration – audit services	10,300	10,000	10,300	10,000
Auditors' remuneration – non-audit services	6,036	11,111	6,036	11,111

4. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The subsidiaries held directly by the Group are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Proportion of ownership interests held by the Group at year end	
			2016	2015
Autifony Srl	Italy	Drug discovery	100%	100%

				Company £
Cost				
At 1 January 2016 and 31 December 2016				8,602

5. INTANGIBLE FIXED ASSETS

Group & Company:

	Intellectual property rights £
Gross carrying amount	
Balance at 1 January 2016	850,000
Additions	-
Balance at 31 December 2016	850,000
Amortisation and impairment	
Balance at 1 January 2016	333,167
Charge in year	85,000
Balance at 31 December 2016	418,167
Carrying amount at 31 December 2016	431,833

AUTIFONY THERAPEUTICS LIMITED

ADDITIONAL INFORMATION

Year ended 31 December 2016

5. INTANGIBLE FIXED ASSETS (CONTINUED)

Group & Company:	Intellectual property rights
	£
Gross carrying amount	
Balance at 1 January 2015	850,000
Additions	-
Balance at 31 December 2015	850,000
Amortisation and impairment	
Balance at 1 January 2015	248,147
Charge in year	85,020
Balance at 31 December 2015	333,167
Carrying amount at 31 December 2015	516,833

Expenditure on research and development has not been capitalised on the basis that until drug development projects obtain regulatory approval, the commercial and financial viability risks are such that the projects do not satisfy the criteria for capitalisation.

6. PROPERTY, PLANT AND EQUIPMENT

Group:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
Balance at 1 January 2016	118,348	25,505	143,853
Additions	35,471	-	35,471
Effects of foreign exchange	17,224	-	17,224
Balance at 31 December 2016	171,043	25,505	196,548
Depreciation and impairment			
Balance at 1 January 2016	68,541	25,505	94,046
Charge in year	37,025	-	37,025
Effects of foreign exchange	237	-	237
Balance at 31 December 2016	105,803	25,505	131,308
Carrying amount at 31 December 2016	65,240	-	65,240

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6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
Balance at 1 January 2015	98,204	25,505	123,709
Additions	25,175	-	25,175
Effects of foreign exchange	(5,031)	-	(5,031)
Balance at 31 December 2015	118,348	25,505	143,853
Depreciation and impairment			
Balance at 1 January 2015	49,651	18,408	68,059
Charge in year	21,090	7,097	28,187
Effects of foreign exchange	(2,200)	-	(2,200)
Balance at 31 December 2015	68,541	25,505	94,046
Carrying amount at 31 December 2015	49,807	-	49,807

Company:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
Balance at 1 January 2016	10,187	25,505	35,692
Additions	23,392	-	23,392
Balance at 31 December 2016	33,579	25,505	59,084
Depreciation and impairment			
Balance at 1 January 2016	3,082	25,505	28,587
Charge in year	3,810	-	3,810
Balance at 31 December 2016	6,892	25,505	32,397
Carrying amount at 31 December 2016	26,687	-	26,687

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6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
Balance at 1 January 2015	2,685	25,505	28,190
Additions	7,502	-	7,502
Balance at 31 December 2015	10,187	25,505	35,692
Depreciation and impairment			
Balance at 1 January 2015	1,006	18,408	19,414
Charge in year	2,076	7,097	9,173
Balance at 31 December 2015	3,082	25,505	28,587
Carrying amount at 31 December 2015	7,105	-	7,105

7. OPERATING LEASE

The Group leases an office under an operating lease. The future minimum lease payments are as follows:

	Within 1 year £	1 to 5 years £	After 5 years £	Total £
31 December 2016	3,749	-	-	3,749
31 December 2015	3,575	-	-	3,575

Payments recognised as an expense are disclosed in note 3. The rental contract has a cancellable term of five months and requires a two month notice period in the event of a cancellation by either party.

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8. TRADE & OTHER RECEIVABLES

	Group 2016 £	2015 £
Amounts receivable within one year		
Other receivables	249,956	741,423
Tax recoverable	821,745	-
Other taxation and social security	161,243	85,916
	<u>1,232,944</u>	<u>827,339</u>

	Company 2016 £	2015 £
Amounts receivable within one year		
Amounts due from subsidiary undertakings	52,492	-
Other receivables	190,283	711,308
Tax recoverable	821,745	-
Other taxation and social security	113,597	59,153
	<u>1,178,117</u>	<u>770,461</u>

All amounts are short-term. The net carrying value of receivables is considered a reasonable approximation of fair value.

9. OTHER OPERATING INCOME

	Group		Company	
	2016 £	2015 £	2016 £	2015 £
Grants receivable	<u>1,553,317</u>	<u>1,125,285</u>	<u>1,553,317</u>	<u>1,125,285</u>

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10. EMPLOYEES

The average monthly number of persons (including executive directors) employed by the Group was:

	2016 £	2015 £
Administration	1	1
Development	13	12
Non-executive	2	2
Average total persons employed	16	15

As at 31 December 2016 the group had 16 employees (31 December 2015: 17)

Staff costs in respect of these employees were:

	2016 £	2015 £
Wages and salaries	1,153,651	1,127,439
Social security costs	177,030	178,140
Other pension costs	58,007	58,322
Total remuneration	1,388,688	1,363,901

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The amounts outstanding at 31 December 2016 in respect of pension are £36,046 (31 December 2015: £24,309).

Key management remuneration:

	2016 £	2015 £
Wages and salaries	751,871	733,785
Social security costs	72,781	74,372
Other pension costs	31,480	31,709
Total remuneration	856,132	839,866

Key management includes executive directors, non-executive directors and senior management who have the responsibility for planning, directing and controlling, directly or indirectly, the activities of the Group.

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11. DIRECTORS' EMOLUMENTS

	2016 £	2015 £
Aggregate emoluments	233,141	228,400
Company contributions to a money purchase pension scheme	11,594	11,284
	<u>244,735</u>	<u>239,684</u>

During the year retirement benefits were accruing to 1 director (2015: 1) in respect of money purchase pension schemes.

Highest paid director

	2016 £	2015 £
Aggregate emoluments	183,752	179,200
Company contributions to a money purchase pension scheme	11,594	11,284

12. TAX ON LOSS ON ORDINARY ACTIVITIES

	2016 £	2015 £
UK corporation tax credit on loss for the year	821,745	587,880
Foreign income taxes	-	(11,983)
	<u>821,745</u>	<u>575,897</u>

The tax assessed for the year is lower than (2015: lower than) the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £	2015 £
Result for the year before taxation	(5,779,272)	(5,831,832)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(1,155,854)	(1,180,946)
Expenses not deductible for tax purposes	780	92
Deferred tax not recognised	1,155,074	1,189,249
Research and development tax credit on losses surrendered	(821,745)	(587,880)
Effect of overseas tax rates	-	3,588
Total tax	<u>(821,745)</u>	<u>(575,897)</u>

Factors that may affect future tax charges

The company takes advantage of the enhanced tax deductions for Research and Development expenditure and expects to continue to be able to do so. The tax credit recognised relates to a claim for the prior year.

There are significant losses available to carry forward, estimated at £14.5 million (2015: £9 million) for which no deferred tax asset is recognised.

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13. FINANCE INCOME AND FINANCE EXPENSE

	2016 £	2015 £
Finance income	<u>23,004</u>	<u>26,354</u>

	2016 £	2015 £
Finance expense	<u>698</u>	<u>1,006</u>

14. TRADE AND OTHER PAYABLES

	Group 2016 £	2015 £
Trade payables	440,612	652,613
Other taxation and social security	70,135	71,944
Accrued expenses	<u>1,379,598</u>	<u>955,546</u>
	<u>1,890,345</u>	<u>1,680,103</u>

	Company 2016 £	2015 £
Trade payables	419,832	635,610
Amounts payable to subsidiaries	-	37,494
Other taxation and social security	31,709	28,714
Accrued expenses	<u>1,374,571</u>	<u>924,206</u>
	<u>1,826,112</u>	<u>1,626,024</u>

Trade and other payables principally consist of amounts outstanding for trade purchases and ongoing costs. They are non-interest bearing and are normally settled on 30 to 45 day terms. The Directors consider that the carrying value of trade and other payables approximates their fair value. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe and no interest has been charged by any suppliers as a result of late payment of invoices during the period.

Amounts due to subsidiary undertakings are interest free, unsecured and have no fixed date of repayment.

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15. CALLED UP SHARE CAPITAL

	2016 £	2015 £
Called up, allotted and fully paid		
2,830,225 (2015 - 2,834,204) Ordinary shares of £0.001 each	2,832	2,834
1,400,000 (2015 - 1,400,000) A Ordinary shares of £0.001 each	1,400	1,400
13,021,429 (2015 - 13,021,429) Series A Preferred shares of £0.001 each	13,021	13,021
1,698,418 (2015 - 1,698,418) Series A-2 Preferred shares of £0.001 each	1,698	1,698
1,300,000 (2015 - 1,300,000) Series A-2 NV Preferred shares of £0.001 each	1,300	1,300
5,863,459 (2015 - 5,863,459) Series A-3 Preferred shares of £0.001 each	5,863	5,863
783,333 (2015 - 783,333) Series A-3 NV Preferred shares of £0.001 each	783	783
	26,897	26,899

Share rights

Ordinary shares and A Ordinary shares carry voting rights, entitlement to dividends and a return on capital after repayment of the capital of the Preferred shares shareholders.

Series A Preferred shares and Series A-2 and A-3 Preferred shares carry voting rights, entitlement to dividends and a return on capital before the ordinary shareholders.

Series A-2 NV and A-3 NV Preferred shares carry entitlement to dividends and a return on capital before the ordinary shareholders but no voting rights.

Dividends are cumulative and accrue on a daily basis and are calculated at 8% of the par value. They are payable only on a share sale or qualifying listing. The shares may be converted into ordinary shares at the discretion of the shareholder at any time. The shares are all considered to be equity instruments.

Share issues

During the year ended 31 December 2016 the company purchased and subsequently cancelled 44,667 Ordinary shares, and issued 40,688 Ordinary shares of £0.001 each at par.

Share options

The company has granted options to employees over Ordinary shares. The vesting period is four years. The options are settled in equity once exercised. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the company before the options vest.

At 31 December 2016 the company has 875,000 outstanding options over Ordinary shares (2015 - 970,000). These were granted from 19 March 2013 and have an exercise price of £0.001 per share. No material share based payment charge is calculated to arise.

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16. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation is disclosed in note 10, and directors' emoluments are disclosed in note 11 of the consolidated financial statements.

During 2016, a Director received a short term loan totalling £49,294 (2015: nil). The outstanding balance of £49,294 (2015: nil) has been included in trade and other receivables and was repaid in full in January 2017.

17. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments are cash flow and liquidity and foreign currency risk. The Group's financial instruments comprise cash, other receivables and various items such as trade payables, which arise directly from its operations.

Cash flow and liquidity risk

Management monitors the level of cash on a regular basis to ensure that the Group has sufficient funds to meet its financial commitments when due. The table below analyses the Group and Company's financial assets and liabilities:

	Group		Company	
	2016	2015	2016	2015
Assets as per statement of financial position	£	£	£	£
Other receivables	177,047	615,824	180,246	615,824
Cash and cash equivalents	4,816,411	9,885,346	4,704,923	9,840,485
Loans and receivables	4,993,458	10,501,170	4,885,169	10,456,309

	Group		Company	
	2016	2015	2016	2015
Liabilities as per statement of financial position	£	£	£	£
Trade payables	445,632	652,613	419,832	635,610
Other payables	1,374,571	955,546	1,374,571	961,701
Financial liabilities measured at amortised cost	1,820,203	1,608,159	1,794,403	1,597,311

Foreign currency risk

The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's use of suppliers operating overseas, primarily denominated in Euro. The Group's exposure to foreign currency changes for all other currencies is not material.

At present the Group does not make use of financial instruments to minimise any foreign exchange gains or losses so any fluctuations in foreign exchange movements may have a material adverse impact on the results from operating activities.

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial assets and liabilities

There is no material difference between the fair value and the carrying values of the financial instruments because of the short maturity period of these financial instruments or their intrinsic size and risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's financial assets are cash and cash equivalents and other receivables. The carrying value of these assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's policy is to minimise the risks associated with cash and cash equivalents by placing these deposits with institutions with a recognised high rating.

Capital risk management

The Group considers capital to be shareholders' equity as shown in the consolidated statement of financial position, as the Group is primarily funded by equity finance. The Group is not yet in a position to pay a dividend.

The objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders. In order to maintain or adjust the capital structure the Group may return capital to shareholders and issue new shares.

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern, and to finance investment in research and development.