

**Company Registration No. 07543962**

**Consolidated Financial Statements**

**Autifony Therapeutics Limited**

**30 September 2017**

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COMPANIES HOUSE

# **AUTIFONY THERAPEUTICS GROUP**

## **CONSOLIDATED FINANCIAL STATEMENTS 2017**

<b>CONTENTS</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2-3</b>
<b>Auditor's report</b>	<b>4-6</b>
<b>Consolidated statement of comprehensive income</b>	<b>7</b>
<b>Consolidated statement of financial position</b>	<b>8</b>
<b>Company statement of financial position</b>	<b>9</b>
<b>Consolidated statement of changes in equity</b>	<b>10</b>
<b>Company statement of changes in equity</b>	<b>11</b>
<b>Consolidated and company statements of cash flows</b>	<b>12</b>
<b>Notes to the financial statements</b>	<b>13-29</b>

# **AUTIFONY THERAPEUTICS GROUP**

## **CONSOLIDATED FINANCIAL STATEMENTS 2017**

### **OFFICERS AND PROFESSIONAL ADVISERS**

#### **DIRECTORS**

J Berriman  
C Large  
C Bingham  
M Bhaman – resigned 15 December 2017  
E Jones  
A Pande  
B Soni – appointed 15 December 2017

#### **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 2017**

### **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the period ended 30 September 2017.

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 period are shown below:

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

The company provides Directors and Officers indemnity insurance for the benefit of the directors of the group. For the period to 30 September 2017 the policy cost £4,575 (2016: £5,935).

### **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 period. 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;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

# AUTIFONY THERAPEUTICS GROUP

## CONSOLIDATED FINANCIAL STATEMENTS 2017

### DIRECTORS' REPORT (CONTINUED)

#### 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.

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

#### 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 19 February 2018 and signed on behalf of the Board.



C Large  
Director

# AUTIFONY THERAPEUTICS GROUP

## CONSOLIDATED FINANCIAL STATEMENTS 2017

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

#### Opinion

We have audited the financial statements of Autifony Therapeutics Limited (the 'parent company') and its subsidiary (the 'group') for the period ended 30 September 2017 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 cashflows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2017 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

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

#### Who we are reporting to

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

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# **AUTIFONY THERAPEUTICS GROUP**

## **CONSOLIDATED FINANCIAL STATEMENTS 2017**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTIFONY THERAPEUTICS LIMITED (CONTINUED)**

#### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Directors' report set out on pages 2 to 3, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report have 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 the parent company and its environment obtained in the course of the audit, we have not identified 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 in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors for the financial statements**

As explained more fully in the Directors' Responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

# AUTIFONY THERAPEUTICS GROUP

## CONSOLIDATED FINANCIAL STATEMENTS 2017

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUTIFONY THERAPEUTICS LIMITED (CONTINUED)

#### **Auditor's responsibilities for the audit of the financial statements**

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

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

*Grant Thornton UK LLP*

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

5 March 2018



# AUTIFONY THERAPEUTICS GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the period ended 30 September 2017

	Note	Nine month period ended 30 September 2017	Year ended 31 Dec 2016
		£	£
Other income	9	559,145	1,553,317
Research and development		(3,035,968)	(6,172,714)
General and administration		(608,141)	(1,182,181)
<b>OPERATING LOSS</b>	3	<b>(3,084,964)</b>	<b>(5,801,578)</b>
Finance income	13	22,604	23,004
Finance expense	13	(378)	(698)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(3,062,738)</b>	<b>(5,779,272)</b>
Taxation	12	1,400,765	821,745
<b>LOSS FOR THE PERIOD/YEAR</b>		<b>(1,661,973)</b>	<b>(4,957,527)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences		4,709	14,390
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD/YEAR</b>		<b>(1,657,264)</b>	<b>(4,943,137)</b>

All amounts relate to continuing operations.

# AUTIFONY THERAPEUTICS LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 September 2017

	Note	30 September 2017	31 December 2016
		£	£
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	5	368,083	431,833
Property, plant & equipment	6	75,995	65,240
<b>TOTAL NON-CURRENT ASSETS</b>		<b>444,078</b>	<b>497,073</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	8	641,126	1,232,944
Cash and cash equivalents		2,586,107	4,816,411
<b>TOTAL CURRENT ASSETS</b>		<b>3,227,233</b>	<b>6,049,355</b>
<b>TOTAL ASSETS</b>		<b>3,671,311</b>	<b>6,546,428</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	672,406	1,890,345
<b>TOTAL CURRENT LIABILITIES</b>		<b>672,406</b>	<b>1,890,345</b>
<b>EQUITY</b>			
Share capital	15	26,983	26,897
Capital Redemption Reserve		2	2
Share premium account		24,760,825	24,760,825
Other components of equity		11,765	7,056
Retained earnings		(21,800,670)	(20,138,697)
<b>TOTAL EQUITY</b>		<b>2,998,905</b>	<b>4,656,083</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,671,311</b>	<b>6,546,428</b>

The financial statements of Autifony Therapeutics Limited, registered number 07543962, were approved by the Board of Directors and authorised for issue on 19 February 2018.

Signed on behalf of the Board of Directors



C Large

Director

# AUTIFONY THERAPEUTICS LIMITED

## COMPANY STATEMENT OF FINANCIAL POSITION as at 30 September 2017

	Note	30 September 2017	31 December 2016
		£	£
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	5	368,083	431,833
Property, plant & equipment	6	32,326	26,687
Investment	4	8,602	8,602
<b>TOTAL NON-CURRENT ASSETS</b>		<b>409,011</b>	<b>467,122</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	8	592,240	1,178,117
Cash and cash equivalents		2,547,978	4,704,923
<b>TOTAL CURRENT ASSETS</b>		<b>3,140,218</b>	<b>5,883,040</b>
<b>TOTAL ASSETS</b>		<b>3,549,229</b>	<b>6,350,162</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	676,723	1,826,112
<b>TOTAL CURRENT LIABILITIES</b>		<b>676,723</b>	<b>1,826,112</b>
<b>EQUITY</b>			
Share capital	15	26,983	26,897
Capital Redemption Reserve		2	2
Share premium account		24,760,825	24,760,825
Retained earnings		(21,915,304)	(20,263,674)
<b>TOTAL EQUITY</b>		<b>2,872,506</b>	<b>4,524,050</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,549,229</b>	<b>6,350,162</b>

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 period incurred by the company was £1,651,630 (2016: £4,993,410).

The financial statements of Autifony Therapeutics Limited, registered number 07543962, were approved by the Board of Directors and authorised for issue on 19 February 2018.

Signed on behalf of the Board of Directors



C Large  
Director

# AUTIFONY THERAPEUTICS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the period ended 30 September 2017

	Share capital £	Capital Redemption Reserve £	Share premium £	Other components of equity £	Retained earnings £	Total equity £
<b>Balance at 1 January 2016</b>	<b>26,899</b>	<b>-</b>	<b>24,760,825</b>	<b>(7,334)</b>	<b>(15,181,168)</b>	<b>9,599,222</b>
Issue of share capital	41	-	-	-	-	41
Cancellation of shares	(43)	2	-	-	(2)	(43)
<b>Transactions with owners</b>	<b>(2)</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>
Loss for the year and total comprehensive income	-	-	-	14,390	(4,957,527)	(4,943,137)
<b>Balance at 31 December 2016</b>	<b>26,897</b>	<b>2</b>	<b>24,760,825</b>	<b>7,056</b>	<b>(20,138,697)</b>	<b>4,656,083</b>
Issue of share capital	86	-	-	-	-	86
Cancellation of shares	-	-	-	-	-	-
<b>Transactions with owners</b>	<b>86</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86</b>
Loss for the period and total comprehensive income	-	-	-	4,709	(1,661,973)	(1,657,264)
<b>Balance at 30 September 2017</b>	<b>26,983</b>	<b>2</b>	<b>24,760,825</b>	<b>11,765</b>	<b>(21,800,670)</b>	<b>2,998,905</b>

# AUTIFONY THERAPEUTICS LIMITED

## COMPANY STATEMENT OF CHANGES IN EQUITY For the period ended 30 September 2017

	Share capital £	Capital Redemption Reserve £	Share premium £	Other components of equity £	Retained earnings £	Total equity £
<b>Balance at 1 January 2016</b>	<b>26,899</b>	<b>-</b>	<b>24,760,825</b>	<b>-</b>	<b>(15,270,262)</b>	<b>9,517,462</b>
Issue of share capital	41	-	-	-	-	41
Cancellation of shares	(43)	2	-	-	(2)	(43)
<b>Transactions with owners</b>	<b>(2)</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>(2)</b>
Loss for the year and total comprehensive income	-	-	-	-	(4,993,410)	(4,993,410)
<b>Balance at 31 December 2016</b>	<b>26,897</b>	<b>2</b>	<b>24,760,825</b>	<b>-</b>	<b>(20,263,674)</b>	<b>4,524,050</b>
Issue of share capital	86	-	-	-	-	86
Cancellation of shares	-	-	-	-	-	-
<b>Transactions with owners</b>	<b>86</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86</b>
Loss for the period and total comprehensive income	-	-	-	-	(1,651,630)	(1,651,630)
<b>Balance at 30 September 2017</b>	<b>26,983</b>	<b>2</b>	<b>24,760,825</b>	<b>-</b>	<b>(21,915,304)</b>	<b>2,872,506</b>

# AUTIFONY THERAPEUTICS LIMITED

## CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS

For the period ended 30 September 2017

	Group		Company	
	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
<b>Cash flows from operating activities</b>				
Loss before income tax	(3,062,738)	(5,779,272)	(3,052,395)	(5,815,155)
Finance income	(22,604)	(23,004)	(22,604)	(23,004)
Finance expense	378	698	80	59
Depreciation and amortisation	87,701	122,025	75,087	88,811
Exchange differences	-	-	-	-
	<b>(2,997,263)</b>	<b>(5,679,553)</b>	<b>(2,999,832)</b>	<b>(5,749,289)</b>
<b>Changes in working capital</b>				
Decrease in trade and other receivables	591,818	416,140	585,877	414,089
(Decrease)/increase in trade and other payables	(1,217,939)	210,245	(1,149,389)	200,088
<b>Net cash used in operations</b>	<b>(3,623,384)</b>	<b>(5,053,168)</b>	<b>(3,563,344)</b>	<b>(5,135,112)</b>
Taxation received	1,400,765	-	1,400,765	-
<b>Net cash used in operating activities</b>	<b>(2,222,619)</b>	<b>(5,053,168)</b>	<b>(2,162,579)</b>	<b>(5,135,112)</b>
<b>Cash flows from investing activities</b>				
Finance income received	22,604	23,004	22,604	23,004
Purchase of property, plant and equipment	(32,713)	(35,471)	(16,976)	(23,393)
<b>Net cash (used in)/generated from investing activities</b>	<b>(10,109)</b>	<b>(12,467)</b>	<b>5,628</b>	<b>(389)</b>
<b>Cash flows from financing activities</b>				
Finance expense paid	(378)	(698)	(80)	(59)
Proceeds from issue of shares	86	(2)	86	(2)
<b>Net cash (used in)/generated from financing activities</b>	<b>(292)</b>	<b>(700)</b>	<b>6</b>	<b>(61)</b>
<b>Movements in cash and cash equivalents in the period/year</b>	<b>(2,233,020)</b>	<b>(5,066,335)</b>	<b>(2,156,945)</b>	<b>(5,135,562)</b>
Cash and cash equivalents at start of period	4,816,411	9,885,346	4,704,923	9,840,485
Exchange difference on cash and cash equivalents	2,716	(2,600)	-	-
<b>Cash and cash equivalents at end of period/year</b>	<b>2,586,107</b>	<b>4,816,411</b>	<b>2,547,978</b>	<b>4,704,923</b>

# **AUTIFONY THERAPEUTICS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 30 September 2017**

### **1. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRSs**

Autifony Therapeutics Limited, the Group's ultimate parent company, is a private company limited by shares, 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 are presented for the nine month period to 30 September 2017. The company changes its accounting date to bring the period end in line with the needs of the business.

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 30 September 2017.

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 30 September 2017. All subsidiaries have a reporting date of 30 September.

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.

On 18 December 2017, the company finalised a collaboration agreement with Boehringer Ingelheim securing a €25 million upfront fee with the possibility of further payments of up to €17.5 million on achievement of certain milestones.

The Directors have reviewed the company's business plans, including cashflow projections for the company covering the next 12 month period from the date of approval of these financial statements, and have reasonable expectation that the company will be able to continue to meet its liabilities as and when they fall due and continue to execute on its business plan.

On the basis of the collaboration agreement secured, the financial statements have been prepared on a going concern basis.

# **AUTIFONY THERAPEUTICS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 30 September 2017**

### **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 period-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 period 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 period in which it is incurred. Development expenditure is written off in the same period 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**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 30 September 2017**

### **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

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 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 any 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

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 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 2017 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

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 3. OPERATING LOSS

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

	Group		Company	
	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
<b>Operating loss is after charging:</b>				
Amortisation of patents	63,750	85,000	63,750	85,000
Depreciation of tangible assets	23,951	37,025	11,337	3,810
Operating leases – land and buildings	45,835	22,233	45,835	22,233
Auditors' remuneration – audit services	10,500	10,300	10,500	10,300
Auditors' remuneration – tax advisory and compliance services	3,296	6,036	3,296	6,036

### 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 period end	
			2017	2016
Autifony Srl	Italy	Drug discovery	100%	100%
			Company £	
<b>Cost</b>				
At 1 January 2017 and 30 September 2017			8,602	

### 5. INTANGIBLE FIXED ASSETS

Group & Company:

	Intellectual property rights £
<b>Gross carrying amount</b>	
Balance at 1 January 2017	850,000
Additions	-
Balance at 30 September 2017	850,000
<b>Amortisation and impairment</b>	
Balance at 1 January 2017	418,167
Charge in period	63,750
Balance at 30 September 2017	481,917
<b>Carrying amount at 30 September 2017</b>	<b>368,083</b>

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 5. INTANGIBLE FIXED ASSETS (CONTINUED)

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

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 £
<b>Gross carrying amount</b>			
Balance at 1 January 2017	171,043	25,505	196,548
Additions	24,099	8,614	32,713
Effects of foreign exchange	4,987	-	4,987
Balance at 30 September 2017	200,129	34,119	234,248
<b>Depreciation and impairment</b>			
Balance at 1 January 2017	105,803	25,505	131,308
Charge in period	22,276	1,675	23,951
Effects of foreign exchange	2,994	-	2,994
Balance at 30 September 2017	131,073	27,180	158,253
<b>Carrying amount at 30 September 2017</b>	<b>69,056</b>	<b>6,939</b>	<b>75,995</b>

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

Company:	Office equipment £	Laboratory equipment £	Total £
<b>Gross carrying amount</b>			
Balance at 1 January 2017	33,579	25,505	59,084
Additions	8,362	8,614	16,976
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2017	41,941	34,119	76,060
<b>Depreciation and impairment</b>			
Balance at 1 January 2017	6,892	25,505	32,397
Charge in period	9,662	1,675	11,337
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2017	16,554	27,180	43,734
<b>Carrying amount at 30 September 2017</b>	<b>25,387</b>	<b>6,939</b>	<b>32,326</b>

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company:	Office equipment £	Laboratory equipment £	Total £
<b>Gross carrying amount</b>			
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
<b>Depreciation and impairment</b>			
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
<b>Carrying amount at 31 December 2016</b>	<b>26,687</b>	<b>-</b>	<b>26,687</b>

### 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 £
30 September 2017	13,966	-	-	13,966
31 December 2016	3,749	-	-	3,749

Payments recognised as an expense are disclosed in note 3.

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 8. TRADE & OTHER RECEIVABLES

	Group 30 September 2017	31 December 2016
	£	£
<b>Amounts receivable within one year</b>		
Other receivables	112,223	249,956
Tax recoverable	450,000	821,745
Other taxation and social security	78,903	161,243
	<u>641,126</u>	<u>1,232,944</u>

	Company 30 September 2017	31 December 2016
	£	£
<b>Amounts receivable within one year</b>		
Amounts due from subsidiary undertakings	-	52,492
Other receivables	90,241	190,283
Tax recoverable	450,000	821,745
Other taxation and social security	51,999	113,597
	<u>592,240</u>	<u>1,178,117</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	
	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Grants receivable	<u>559,145</u>	<u>1,553,317</u>	<u>559,145</u>	<u>1,553,317</u>



# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 10. EMPLOYEES

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

	Nine month period ended 30 September 2017	Year ended 31 December 2016
Administration	2	1
Development	11	13
Non-executive	2	2
Average total persons employed	15	16

As at 30 September 2017 the group had 15 employees (31 December 2016: 16)

Staff costs in respect of these employees were:

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Wages and salaries	959,214	1,153,651
Social security costs	130,598	177,030
Other pension costs	54,833	58,007
Total remuneration	1,144,645	1,388,688

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 30 September 2017 in respect of pension are £19,545 (31 December 2016: £36,046).

Key management remuneration:

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Wages and salaries	619,751	751,871
Social security costs	82,928	72,781
Other pension costs	25,733	31,480
Total remuneration	728,412	856,132

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.

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 11. DIRECTORS' EMOLUMENTS

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Aggregate emoluments	198,792	233,141
Company contributions to a money purchase pension scheme	8,825	11,594
	<u>207,617</u>	<u>244,735</u>

During the period retirement benefits were accruing to 1 director (2016: 1) in respect of money purchase pension schemes.

#### Highest paid director

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Aggregate emoluments	161,010	183,752
Company contributions to a money purchase pension scheme	8,825	11,594
	<u>169,835</u>	<u>195,346</u>

### 12. TAX ON LOSS ON ORDINARY ACTIVITIES

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
UK corporation tax credit on loss for the period	450,000	-
Adjustment in respect of previous periods	950,765	821,745
	<u>1,400,765</u>	<u>821,745</u>

The tax assessed for the period is higher than (2016: lower than) the standard rate of corporation tax in the UK of 19.33% (2016: 20%). The differences are explained below:

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 12. TAX ON LOSS ON ORDINARY ACTIVITIES (CONTINUED)

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Result for the period/year before taxation	(3,062,738)	(5,779,272)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.33% (2016: 20%)	(592,027)	(1,155,854)
Expenses not deductible for tax purposes	3,156	780
Deferred tax not recognised	588,871	1,155,074
Research and development tax credit on losses surrendered	(1,400,765)	(821,745)
Total tax	(1,400,765)	(821,745)

#### 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 period.

There are significant losses available to carry forward, estimated at £14.7 million (2016: £14.5 million) for which no deferred tax asset is recognised.

### 13. FINANCE INCOME AND FINANCE EXPENSE

	Nine month period ended 30 September 2017 £	Year ended 31 December 2016 £
Finance income	22,604	23,004
Finance expense	378	698

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 14. TRADE AND OTHER PAYABLES

	Group	
	30 September 2017	31 December 2016
	£	£
Trade payables	146,477	440,612
Other taxation and social security	56,546	70,135
Accrued expenses	469,383	1,379,598
	<u>672,406</u>	<u>1,890,345</u>

	Company	
	30 September 2017	31 December 2016
	£	£
Trade payables	136,156	419,832
Amounts payable to subsidiaries	29,956	-
Other taxation and social security	41,226	31,709
Accrued expenses	469,385	1,374,571
	<u>676,723</u>	<u>1,826,112</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.

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 15. CALLED UP SHARE CAPITAL

	30 September 2017	31 December 2016
	£	£
<b>Called up, allotted and fully paid</b>		
2,916,787 (2016 - 2,830,225) Ordinary shares of £0.001 each	<b>2,918</b>	2,832
1,400,000 (2016 - 1,400,000) A Ordinary shares of £0.001 each	<b>1,400</b>	1,400
13,021,429 (2016 - 13,021,429) Series A Preferred shares of £0.001 each	<b>13,021</b>	13,021
1,698,418 (2016 - 1,698,418) Series A-2 Preferred shares of £0.001 each	<b>1,698</b>	1,698
1,300,000 (2016 - 1,300,000) Series A-2 NV Preferred shares of £0.001 each	<b>1,300</b>	1,300
5,863,459 (2016 - 5,863,459) Series A-3 Preferred shares of £0.001 each	<b>5,863</b>	5,863
783,333 (2016 - 783,333) Series A-3 NV Preferred shares of £0.001 each	<b>783</b>	783
	<b>26,983</b>	26,897

#### 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 period ended 30 September 2017 the company issued 86,562 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 30 September 2017 the company has 938,000 outstanding options over Ordinary shares (2016: 875,000). 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.

# AUTIFONY THERAPEUTICS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Period ended 30 September 2017

### 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.

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

### 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	
	30 September 2017 £	31 December 2016 £	30 September 2017 £	31 December 2016 £
<b>Assets as per statement of financial position</b>				
Other receivables	-	177,047	-	180,246
Cash and cash equivalents	<b>2,586,107</b>	4,816,411	<b>2,547,978</b>	4,704,923
Loans and receivables	<b>2,586,107</b>	4,993,458	<b>2,547,978</b>	4,885,169

	Group		Company	
	30 September 2017 £	31 December 2016 £	30 September 2017 £	31 December 2016 £
<b>Liabilities as per statement of financial position</b>				
Trade payables	<b>146,477</b>	445,632	<b>136,156</b>	419,832
Other payables	<b>469,383</b>	1,374,571	<b>499,341</b>	1,374,571
Financial liabilities measured at amortised cost	<b>615,860</b>	1,820,203	<b>635,497</b>	1,794,403

#### 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.

# **AUTIFONY THERAPEUTICS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Period ended 30 September 2017**

### **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.