

# **BenevolentAI Bio Limited**

## **Directors' report and financial statements**

**Registered number 08774096**

**31 December 2017**

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## **Contents**

Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	4
Independent auditor's report to the members of BenevolentAI Bio Limited	5
Statement of Profit and Loss and Other Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Cash Flow Statement	11
Notes	12

## **Directors' report**

The directors present their report and the audited financial statements of BenevolentAI Bio Limited (the "Company") for the year ended 31 December 2017.

The directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' regime under section 415A of the Companies Act 2006. The directors have not presented a Strategic report in accordance with section 414B of the Companies Act 2006.

### **Change in accounting framework**

The Company has adopted IFRS (International Financial reporting standards as adopted by the EU) for the first time this year. In previous years, the company applied the existing UK accounting standards. The impact of the change is described in note 22.

### **Principal activity**

The Company was incorporated on 13 November 2013. The Company is wholly-owned by BenevolentAI Limited (the "parent").

The purpose of the Company is to find new target-disease association and develop new medicines that modulate those targets to treat patients with those diseases. Unlike other biotechnology companies, the Company has access to the artificial intelligence platform that has been developed by BenevolentAI Technology Limited. In this way, the Company can access vast quantities of public and proprietary structured and unstructured information and data to infer new relationships between concepts of interest (e.g. drug, disease, gene etc). The Company also uses technology to reduce the cycle time and cost of in-house drug development programmes, leading to a significant increase in efficiency.

The Company made a loss of £16.0m in the period ended 31 December 2017 (2016: £9.0m loss). Included in the £16.0m is an employee benefit charge of £3.6m (2016: £3.6m) which relates to BenevolentAI Group share option plan.

### **Going concern**

The financial statements have been prepared on the going concern basis. The Company made a loss of £16.0m (2016: £9.0m) and has net liabilities of £32.0m (2016: £44.4m) at 31 December 2017 and is dependent on continuing financing being made available by its parent company, BenevolentAI Limited to enable it to continue operating and to meet its liabilities as they fall due. The Company has obtained a letter of support from its parent company BenevolentAI Limited confirming that it will provide continuing support for at least 12 months from the date of approval of the financial statements. The directors continue to adopt the going concern basis of accounting in preparing the financial statements.

### **Research and development**

The Company has a number of research programmes in various stages from early target validation, through lead optimisation, to clinical development.

### **Proposed dividend**

The directors do not recommend the payment of a dividend (2016 : Nil).

### **Directors**

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

## **Directors' Report (Continued)**

Mr Kenneth Mulvany

Professor Ann Jacqueline Hunter

### **Political contributions**

The Company made no political donations or incurred any political expenditure during this financial year (2016: £nil).

### **Financial risk management**

The Company's finance department manages the risk inherent in the availability of liquid funds in accordance with the corporate policies of its parent company. The Company does so by the use of regular cash flow management and timely requisitioning of allocated funds from parent company.

### **Disclosure of information to auditor**

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

### **Auditor**

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

By order of the board



Jackie Hunter

Director

Date : 25<sup>th</sup> September 2018

40 Churchway  
London  
NW1 1LW

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

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 they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BENEVOLENTAI BIO LIMITED**

### **Opinion**

We have audited the financial statements of BenevolentAI Bio Limited ("the Company") for the year ended 31 December 2017 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### **Directors' report**

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required 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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BENEVOLENTAI BIO LIMITED (continued)**

- 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.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

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.

**Mark Smith (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
**Chartered Accountants**  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

27 September 2018

**Statement of Profit and Loss and other Comprehensive Income**  
*for year ended 31 December 2017*

	Note	2017 £000	Restated 2016 £000
Revenue	3	2,585	2,585
<b>Gross profit</b>		<b>2,585</b>	<b>2,585</b>
Administrative and research and development expenses	4,5,15	(21,271)	(13,692)
<b>Operating loss</b>		<b>(18,686)</b>	<b>(11,107)</b>
Financial income	7	18	101
Loss before taxation		(18,668)	(11,006)
Taxation	8	2,679	1,962
Loss for the year		(15,989)	(9,044)
<b>Total comprehensive loss for the year</b>		<b>(15,989)</b>	<b>(9,044)</b>

The notes on pages 12 to 31 form an integral part of these statements

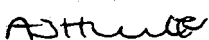


**Statement of Financial Position**  
**at 31 December 2017**

	Note	2017 £000	restated 2016 £000	restated 1 January 2016 £000
<b>Non-current assets</b>				
Intangible assets	9	904	949	-
Property, plant and equipment	10	195	180	355
Investment in associate	11	3,621	8,000	8,000
Trade and other receivables	12	408	720	398
		<u>5,128</u>	<u>9,849</u>	<u>8,753</u>
<b>Current assets</b>				
Cash and cash equivalents	13	1,243	1,809	50,437
Trade and other receivables	12	32,136	41,101	1,093
		<u>33,379</u>	<u>42,910</u>	<u>51,530</u>
<b>Total assets</b>		<u>38,507</u>	<u>52,759</u>	<u>60,283</u>
<b>Current liabilities</b>				
Trade and other payables	14	2,084	1,262	781
Deferred income	14	2,585	2,585	2,585
		<u>4,669</u>	<u>3,847</u>	<u>3,366</u>
<b>Non-current liabilities</b>				
Deferred income	14	1,874	4,459	7,044
Deferred tax liabilities	14	-	64	-
		<u>1,874</u>	<u>4,523</u>	<u>7,044</u>
<b>Total liabilities</b>		<u>6,543</u>	<u>8,370</u>	<u>10,410</u>
<b>Net Assets</b>		<u>31,964</u>	<u>44,389</u>	<u>49,873</u>
<b>Equity</b>				
Share capital	16	2	2	2
Share premium account		54,737	54,737	54,737
Capital contributions		16,675	13,111	-
Share-based payment reserve		-	-	9,551
Retained earnings		(39,450)	(23,461)	(14,417)
<b>Total equity</b>		<u>31,964</u>	<u>44,389</u>	<u>49,873</u>

The notes on pages 12 to 31 form an integral part of these statements

These financial statements were approved by the board of directors on 25<sup>th</sup> September 2018 and were signed on its behalf by:



**Jackie Hunter**

Director

Company registered number: 08774096

**Statement of Changes in Equity**  
*for year ended 31 December 2017*

	Called up Share capital	Share Premium account	Share-based payments reserve	Capital contributions	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2016	2	54,737	9,551	-	(14,365)	49,925
Effect of IFRS 1 changes (note 22)	-	-	-	-	(52)	(52)
Balance at 1 January 2016 [restated]	2	54,737	9,551	-	(14,417)	49,873
<b>Total comprehensive loss for the period</b>	-	-	-	-	<b>(9,044)</b>	<b>(9,044)</b>
<b>Transactions with owners, recorded directly in equity</b>						
Equity-settled share based payment transactions	-	-	-	3,560	-	3,560
Group Share option plan	-	-	(9,551)	9,551	-	-
<b>Total contributions by and distributions to owners</b>	-	-	(9,551)	13,111	-	3,560
<b>Balance at 31 December 2016</b>	<b>2</b>	<b>54,737</b>	<b>-</b>	<b>13,111</b>	<b>(23,461)</b>	<b>44,389</b>

The notes on pages 12 to 31 form an integral part of these statements

**Statement of Changes in Equity**  
for year ended 31 December 2017

	Called up Share capital	Share Premium account	Capital contributions	Retained earnings	Total equity
	£000	£000	£000	£000	£000
Balance at 1 January 2017	2	54,737	13,111	(23,461)	44,389
<b>Total comprehensive income for the period</b>					
Profit or loss	-	-	-	(15,989)	(15,989)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	-	-	(15,989)	(15,989)
<b>Transactions with owners, recorded directly in equity</b>					
Equity-settled share based payment transactions	-	-	3,564	-	3,564
<b>Total contributions by and distributions to owners</b>	-	-	3,564	-	3,564
<b>Balance at 31 December 2017</b>	<b>2</b>	<b>54,737</b>	<b>16,675</b>	<b>(39,450)</b>	<b>31,964</b>

In 2015 the share option plan was held by BenevolentAI Bio Limited (previously known as Stratified Medical Limited) and qualifying employees were granted share options for services rendered to the company. As part of the group reorganisation all existing option holders in BenevolentAI Bio released their options for equivalent options in the new parent company (BenevolentAI Limited). The new share based payment operates as a group share based payment scheme where employees are granted share options in BenevolentAI Limited for services rendered to the company and the subsidiaries. Employees of BenevolentAI Bio Limited are included within the group share based payment scheme and are granted options in BenevolentAI Limited. The share options granted will be settled by BenevolentAI Limited and therefore have been recognised as a capital contribution from its parent company.

The notes on pages 12 to 31 form an integral part of these statements

**Cash Flow Statement**  
*for year ended 31 December 2017*

	Note	2017 £000	2016 £000
<b>Cash flows from operating activities</b>			
Profit for the year		(18,668)	(11,006)
Adjustments for:			
Depreciation, amortisation and impairment		4,618	114
Disposal of tangible fixed assets		-	8
Foreign exchange gain		(37)	(433)
Equity settled share-based payment expenses	15	3,564	3,560
Tax refund	8	2,679	1,962
		<hr/>	<hr/>
Decrease/(increase) in trade and other receivables		9,277	(40,035)
Decrease in trade and other payables		(1,827)	(2,040)
		<hr/>	<hr/>
<b>Net cash from operating activities</b>		<b>(394)</b>	<b>(47,870)</b>
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	10	(62)	(227)
Acquisition of Intangible assets	9	(16)	(964)
Acquisition of investments	11	(131)	-
		<hr/>	<hr/>
<b>Net cash from investing activities</b>		<b>(209)</b>	<b>(1,191)</b>
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(603)	(49,061)
Cash and cash equivalents at 1 January		1,809	50,437
Effect of exchange rate fluctuations on cash held		37	433
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December 2017</b>	13	<b>1,243</b>	<b>1,809</b>
		<hr/>	<hr/>

The notes on pages 12 to 31 form an integral part of these statements

## **Notes**

*(forming part of the financial statements)*

### **1 Accounting policies**

The BenevolentAI Bio Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 08774096 and the registered address is 40 Churchway, London NW1 1LW.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2016 for the purposes of the transition to Adopted IFRSs.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2. All amounts in the financial statements have been rounded to the nearest £1,000.

#### **1.1 Transition to Adopted IFRSs**

The company is preparing its financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance of the Company is provided in note 22.

#### **1.2 Measurement convention**

The financial statements are prepared on the historical cost basis except financial instruments classified as available for sale are stated at fair value.

#### **1.3 Going concern**

The financial statements have been prepared on the going concern basis. The Company made a loss of £16.0m (2016: £9.0m) and has net liabilities of £32.0m (2016: £44.4m) at 31 December 2017 and is dependent on continuing financing being made available by its parent company, BenevolentAI Limited to enable it to continue operating and to meet its liabilities as they fall due. The Company has obtained a letter of support from its parent company BenevolentAI Limited confirming that it will provide continuing support for at least 12 months from the date of approval of the financial statements. The directors continue to adopt the going concern basis of accounting in preparing the financial statements.

#### **1.4 Foreign currency**

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Company's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve. When a foreign operation is disposed of, such that control, or significant influence (as the case may be) is lost, the entire accumulated amount in the foreign currency translation reserve, is recycled to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Company disposes of only part of its

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.4 Foreign currency (continued)**

investment in an associate that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is recycled to profit or loss.

#### **1.5 Classification of financial instruments issued by the Company**

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

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

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

#### **1.6 Non-derivative financial instruments**

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

##### *Trade and other receivables*

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

##### *Trade and other payables*

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

##### *Investments in debt and equity securities*

Investments in debt and equity securities held by the Company are classified as an equity instrument not held for trading and are stated at fair value, with any resultant gain or loss including impairment losses being recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments in associates are carried at cost less impairment.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

### **1.7 Intangible assets**

#### *Research and development*

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

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

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.7 Intangible assets (continued)**

##### *Other Intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

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

##### *Amortisation*

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

- Patents - length of patent licence
- Software - length of software licence

#### **1.8 Property, plant and equipment**

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

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

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives are as follows:

- computer equipment 3 years
- fixtures and fittings 4 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits

#### **1.9 Impairment**

##### *Financial assets (including receivables)*

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

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

##### *Non-financial assets*

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

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.9 Impairment (continued)**

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

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

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

#### **1.10 Employee benefits**

##### *Defined contribution plans*

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

##### *Short-term benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

##### *Share-based payment transactions*

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

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Where the Company is part of a group share-based payment plan, it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group. The basis of such allocation is disclosed in note 15.

#### **1.11 Revenue**

The Company's revenue is generated from two sources.

- Royalties from Licence Agreement
- Rendering of services

Revenue for rendering of services is recognised over the term of the contract. Royalties are recognised on an accruals basis in line with related contracts.



## **Notes (continued)**

### **1 Accounting policies (continued)**

#### **1.12 Expenses**

##### *Operating lease*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

#### **1.13 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

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

#### **1.14 Adopted IFRS not yet applied**

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

- IFRS 15 Revenue from Contract with Customers (effective date from 1 January 2018) – The group has performed an IFRS 15 assessment on its two revenue generating contracts. 2017 revenue is expected to be materially higher on an IFRS 15 basis due to accelerated recognition as a result of a shortened license period to reflect the period over which the performance obligation is met.
- IFRS 16 Leases (effective date 1 January 2019). IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all material leases that have a term greater than a year. There are recognition exemptions for short term leases and leases of low-value items. The Company has completed an initial assessment and the application of the standard is likely to have a material impact on the 2017 results. See note 18 for further details of operating leases currently held.
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018 with early application permitted). The Company is not a financial institution and does not have any complex financial instruments or trade receivables and does not apply hedge accounting. The Company therefore expects no significant impact from the application of IFRS 9 on its Financial Position.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date 1 January 2018).

### **2 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other relevant factors, including management's reasonable expectations of future events. The preparation of the financial statements requires management to make estimates and assumptions concerning the future. There were no critical accounting estimates made in preparing these financial statements.

## Notes (continued)

### 3 Revenue

	2017 £000	2016 £000
Royalties	2,000	2,000
Rendering of services	585	585
Total revenues	<u>2,585</u>	<u>2,585</u>
By geographical market		
UK	2,000	2,000
USA	585	585
Total revenues	<u>2,585</u>	<u>2,585</u>

£2m royalties is from a related party. See note 19 for related party information.

### 4 Expenses and auditor's remuneration

*Included in profit/loss are the following:*

	2017 £000	2016 £000
Research and development expensed as incurred	10,603	5,112
Impairment of Investment in associate (note 11)	4,510	-

*Auditor's remuneration:*

	2017 £000	2016 £000
Audit of these financial statements	10	10
Amounts receivable by the company's auditor and its associates in respect of: Taxation compliance services	<u>7</u>	<u>7</u>

### 5 Staff numbers and costs

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

	Number of employees	
	2017	2016
Research and development	25	30
Administration	2	6
	<u>27</u>	<u>36</u>

## Notes (continued)

### 5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	2,574	2,897
Share based payments (See note – 15)	3,564	3,560
Social security costs	272	338
Contributions to defined contribution plans	56	67
	<u>6,466</u>	<u>6,862</u>

### 6 Directors' remuneration

	2017 £000	2016 £000
Directors' remuneration	<u>208</u>	<u>180</u>

The remuneration of the highest paid director was £207,506 (2016 - £172,125) and no company pension contributions were made (2016 - £Nil)

### 7 Finance income

	2017 £000	2016 £000
Interest income on bank deposits	-	101
Interest income from loans and receivables	15	-
Net foreign exchange gain	3	-
	<u>18</u>	<u>101</u>

## Notes (continued)

### 8 Taxation

#### Recognised in the income statement

	2017 £000	2016 £000
Current tax on income for the period	2,615	2,026
Deferred tax – origination and reversal of timing difference	64	(64)
	<hr/>	<hr/>
Current tax credit	2,679	1,962
	<hr/>	<hr/>

#### Reconciliation of effective tax rate

	2017 £000	2016 £000
Loss for the year	(15,989)	(9,044)
Total tax refund	(2,679)	(1,962)
	<hr/>	<hr/>
Loss excluding taxation	(18,668)	(11,006)
Tax using the UK corporation tax rate of 19.25%/20 %	(3,594)	(2,201)
	<hr/>	<hr/>
Adjust closing deferred tax to average rate of 19.25%/20%	466	265
Adjust opening deferred tax to average rate of 19.2%/20%	(324)	(239)
Surrender of tax losses for R&D tax credit refund	856	771
Current year R&D tax credit refund	(1,962)	(1,581)
Non-deductible expenses	873	14
Fixed asset differences	2	60
Other tax adjustments, reliefs and transfers	-	(213)
Deferred tax not recognised	1,004	1,162
	<hr/>	<hr/>
Total tax refund included in accounts	(2,679)	(1,962)
	<hr/>	<hr/>

A deferred tax asset of £3.5m (2016 - £3.3m), relating to losses, has not been recognised due to uncertainties over future profitability.

The main rate of UK corporation tax reduced to 19% from 1 April 2017. The Finance Act (No.2) 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 18% with effect from 1 April 2020. The Budget in March 2016 announced further reduction to 17% with effect from 1 April 2020, the impact of this reduction will be taken into account once this rate has been substantially enacted. The deferred tax asset not recognised at 31 December 2017 has been calculated based on these rates.

## Notes (continued)

### 9 Intangible assets

	Patents £000	Software £000	Total £000
<b>Cost</b>			
Balance at 1 January 2016	-	-	-
Additions	964	-	964
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	964	-	-
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2017	964	-	964
Additions	-	16	16
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2017</b>	<b>964</b>	<b>16</b>	<b>980</b>
	<hr/>	<hr/>	<hr/>
<b>Amortisation and impairment</b>			
Balance at 1 January 2016	-	-	-
Amortisation for the year	15	-	15
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	15	-	15
	<hr/>	<hr/>	<hr/>
Balance at 1 January 2017	15	-	15
Amortisation for the year	60	1	61
	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2017</b>	<b>75</b>	<b>1</b>	<b>76</b>
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 December 2016	949	-	949
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2017</b>	<b>889</b>	<b>15</b>	<b>904</b>
	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 10 Property, plant and equipment

	Leasehold improvement £000	Computer Equipment £000	Fixtures & fittings £000	Total £000
<b>Cost</b>				
Balance at 1 January 2016	133	214	75	422
Addition	27	190	10	227
Disposals	-	(14)	(1)	(15)
Inter Group Transfers	-	(326)	(74)	(400)
Balance at 31 December 2016	160	64	10	234
Balance at 1 January 2017	160	64	10	234
Additions	15	46	1	62
<b>Balance at 31 December 2017</b>	<b>175</b>	<b>110</b>	<b>11</b>	<b>296</b>
<b>Depreciation</b>				
Balance at 1 January 2016	6	52	9	67
Depreciation charge for the year	15	68	16	99
Disposals	-	(6)	-	(6)
Inter Group Transfers	-	(85)	(21)	(106)
Balance at 31 December 2016	21	29	4	54
Balance at 1 January 2017	21	29	4	54
Depreciation charge for the year	17	28	2	47
<b>Balance at 31 December 2017</b>	<b>38</b>	<b>57</b>	<b>6</b>	<b>101</b>
<b>Net book value</b>				
At 31 December 2016	139	35	6	180
<b>At 31 December 2017</b>	<b>137</b>	<b>53</b>	<b>5</b>	<b>195</b>

### 11 Investment in subsidiary and associate

	Registered office address	Class of shares held	Ownership	
			2017	2016
Adarga Limited	UK	Ordinary shares	19.99%	20%
BenBio GK	Domiciled in Japan	Ordinary Shares	100%	-

## Notes (continued)

### 11 Investment in subsidiary and associate (continued)

Company	Shares in group undertakings £000
<i>Cost</i>	
At 1 January 2016	8,000
Additions	-
	<hr/>
At 31 December 2016	8,000
	<hr/>
At 1 January 2017	8,000
Additions	131
Impairment charge	(4,510)
<i>Net book value</i>	
At 31 December 2017	3,621
	<hr/>
At 31 December 2016	8,000
	<hr/>

#### *Associate*

During the year the Company's shareholding in the associate decreased to 19.99% due to dilution as a result of additional shares being issued by Adarga Limited. The Company continues to hold significant influence in Adarga Limited and has accounted for the Investment in Adarga Limited as an associate.

### 12 Trade and other receivables

	2017 £000	2016 £000
<b>Non-current</b>		
Rent deposit	408	398
Other receivables	-	322
	<hr/>	<hr/>
	408	720
	<hr/>	<hr/>
<b>Current</b>		
Other receivables	353	17
Rent deposit	10	10
R&D claim	4,641	2,026
Other taxation and social security	272	123
Prepayments	260	168
Amounts owed from related parties	26,600	38,757
	<hr/>	<hr/>
	32,136	41,101
	<hr/>	<hr/>

**Notes (continued)**

**13 Cash and cash equivalents**

	2017 £000	2016 £000
Cash at bank and in hand	1,243	1,809

**14 Trade and other payables**

	2017 £000	2016 £000
<b>Non - Current</b>		
Deferred Income	1,874	4,459
Deferred tax	-	64
	<u>1,874</u>	<u>4,523</u>
<b>Current</b>		
Trade payables	1,201	554
Taxation and social security	102	132
Other payables	87	55
Accruals	694	521
Deferred income	2,585	2,585
	<u>4,669</u>	<u>3,847</u>



## Notes (continued)

### 15 Employee benefits

#### Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £56k (2016 - £67k). There was an accrual of £14k at year end December 2017 (2016 - £7k).

#### Share based payments

The company is a member of a group unapproved Share Option Plan. All employees are offered options upon joining the company. During the year 4,106 options were granted to employees and others under the unapproved Share Option Plan and 8,107 were forfeited due to the grantees no-longer being employed by the company.

3,306 options were granted with an exercise price of £674 per option, and 800 granted at an exercise price of £111. All shares vest evenly over the vesting periods from date of grant and lapse on the 10<sup>th</sup> anniversary of the date of grant.

All options are performance based and thus vesting relies on a favourable annual performance review.

Method of settlement is by equity only. No options were exercised in either scheme during the year.

The number and weighted average exercise prices of share options are as follows:

Options held in BenevolentAI Limited by staff in BenevolentAI Bio Limited	Weighted average exercise price 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Options Outstanding at the beginning of the year	162	33,531	111	14,320
Forfeited during the year	(122)	(8,107)	-	-
Exercised during the year	-	-	-	-
Granted during the year	546	4,106	198	19,811
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at the end of the year	230	29,530	162	34,131
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable at the end of the year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

The fair value of services received in return for share options granted are measured by reference to the fair value of goods or services received or reference to the fair value of share options granted. The fair value of the goods or services received was arrived at by using an intrinsic value measurement method. The intrinsic value is re-measured at each reporting date and charges are recognised in the profit and loss.

Measurement inputs and assumptions are as follows:

	2017	2016
Fair value at grant date	£11.6m	£6.0m
Weighted average share price	£230	£162
Exercise price	£819	£674
Expected volatility (expressed as staff turnover)	12%	20%

The expected volatility is based on average staff turnover over the last three years.

The total expenses recognised for the year and the total liabilities recognised at the end of the year arising from share-based payments are as follows:

	2017 £000	2016 £000
Total share-based payment expense	3,564	3,560
	<hr/>	<hr/>

## Notes (continued)

### 16 Capital and reserves

#### Share capital

	Ordinary shares 2017	
On issue at 1 January 2017	17,091	
Issued for cash	-	
On issue at 31 December 2017 - fully paid	17,091	
	2017	2016
	£	£
<i>Allotted, called up and fully paid</i>		
17,091 ordinary share £ 0.10	1,709	1,709

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

### 17 Financial instruments

#### *Fair values of financial instruments*

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Carrying amount
	2017	2016
	£000	£000
<b>Loans and receivables</b>		
Cash and cash equivalents (note 13)	1,243	1,809
Trade and other receivables (note 12)	27,371	39,504
<b>Total financial assets</b>	28,614	41,313
<b>Financial liabilities not measured at fair value (note 14)</b>	1,982	1,130
<b>Total financial liabilities</b>	1,982	1,130

## Notes (continued)

### 17 Financial instruments (continued)

#### *Risk Management*

The company's principal financial instruments comprise cash at bank, trade payables and other receivables and the main purpose of these financial instruments is to facilitate the company's operations.

#### *Credit risk*

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

The company currently does not have any outstanding debt owed by customers and does not have a provision for bad debt, consequently exposure to expected credit losses is nil.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The group expects to meet its financial obligations through operating and financing cashflows.

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

		31 December 2017			
	Carrying amount	1 year or less	1 to <2years	2 to <5years	5years and over
	£000	£000	£000	£000	£000
<b>Non-derivative financial liabilities</b>					
Trade and other payables	1,982	1,982	-	-	-
		31 December 2016			
	Carrying amount	1 year or less	1 to <2years	2 to <5years	5years and over
	£000	£000	£000	£000	£000
<b>Non-derivative financial liabilities</b>					
Trade and other payables	1,130	1,130	-	-	-

## Notes (continued)

### 17 Financial instruments (continued)

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The company does not have any exposure to interest rate risk nor changes in quoted equity prices, but it is exposed to foreign exchange rates.

#### Foreign currency risk

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts

#### 31 December 2017

	Euro £000	US Dollar £000	British Pound £000	Total £000
Cash and cash equivalents	487	200	556	1,243
Net exposure	487	200	556	1,243

#### 31 December 2016

	Euro £000	US Dollar £000	British Pound £000	Total £000
Cash and cash equivalents	237	284	1,288	1,809
Net exposure	237	284	1,288	1,809

A 10 percent weakening of the following currencies against the pound sterling at 31 December 2017 would have increased profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 31 December 2016

#### Sensitivity analysis

	2017 £000	2016 £000
€	(49)	(24)
\$	(20)	(29)

A 10 percent strengthening of the above currencies against the pound at 31 December 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

#### Bank credit ratings

The cash and cash equivalents are held with bank and financial institution counterparties, which are rated BBB+ and above, based on Standard and Poor credit ratings as at 31 December 2017, which is at minimum a positive outlook. The company considers that its cash and cash equivalents have low credit risk based on the external ratings.

## Notes (continued)

### 18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017 £000	2016 £000
Less than one year	375	375
Between one and five years	1,500	1,500
More than five years	824	1,199
	<u>2,699</u>	<u>3,074</u>

During the year 2017 £375k was recognised as an expense in the income statement in respect of operating leases (2016: £373k).

### 19 Related Parties

#### *Identity of related parties with which the Company has transacted*

During the period, BenevolentAI Bio Limited paid contractor fees totalling £180k (2016 - £213k) to Lisciad Limited, a company under common control. At the period end, BenevolentAI Bio Limited owed £18k (2016 - £28k) to Lisciad Limited. The company has recognised additional expenses of £88k to Lisciad Limited for services relating to the current reporting period which were paid in February 2018.

#### *Transactions with key management personnel*

Total compensation of key management personnel in the year amounted to nil (2016 - £7k).

#### *Other related party transactions*

	Sales to 2017 £000	2016 £000	Services received 2017 £000	2016 £000
Entities over which Company has control, joint control or significant influence – Adarga Limited	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>-</u>

At 31 December 2017, there were no receivables or creditors outstanding in relation to Adarga Limited (2016 : £Nil).

## Notes (continued)

### 19 Related Parties (continued)

There were no provisions for uncollectible receivables and bad debts expense recognised in the period in relation to related parties.

	Receivables outstanding	
	2017 £000	2016 £000
Parent	26,253	38,422
Other related parties	347	335
	<hr/>	<hr/>
	26,600	38,757
	<hr/>	<hr/>

### 20 Ultimate parent company and parent company of larger group

The Company is controlled by Mr Kenneth Mulvany, a director of the Company which is incorporated in the United Kingdom. The parent company BenevolentAI Ltd has its registered office at 40 Churchway, London NW1 1LW.

### 21 Subsequent event

No subsequent events to report.

### 22 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Company's first financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2017, the comparative information presented in these financial statements for the year ended 31 December 2016 and in the preparation of an opening IFRS balance sheet at 1 January 2016.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables:

## Notes (continued)

### 22 Explanation of transition to Adopted IFRSs (continued)

#### Reconciliation of equity

	Note	1 January 2016			31 December 2016		
		UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs	UK GAAP	Effect of transition to Adopted IFRSs	Adopted IFRSs
		£000	£000	£000	£000	£000	£000
<b>Non-current assets</b>							
Property, plant and equipment		355	-	355	180	-	180
Intangible assets	<i>b</i>	-	-	-	-	949	949
Investments associate		8,000	-	8,000	8,000	-	8,000
Trade and other receivables	<i>a</i>	-	398	398	-	322	720
		<u>8,355</u>	<u>398</u>	<u>8,753</u>	<u>8,180</u>	<u>1,271</u>	<u>9,849</u>
<b>Current assets</b>							
Trade and other receivables	<i>a</i>	1,543	(450)	1,093	41,873	(322)	41,101
Cash and cash equivalents		50,437	-	50,437	1,809	-	1,809
		<u>51,980</u>	<u>(450)</u>	<u>51,530</u>	<u>43,682</u>	<u>(322)</u>	<u>42,910</u>
<b>Total assets</b>		<u>60,335</u>	<u>(52)</u>	<u>60,283</u>	<u>51,862</u>	<u>949</u>	<u>52,759</u>
<b>Current liabilities</b>							
Trade and other payables		781	-	781	1,262	-	1,262
Deferred income		2,585	-	2,585	2,585	-	2,585
		<u>3,366</u>	<u>-</u>	<u>3,366</u>	<u>3,847</u>	<u>-</u>	<u>3,847</u>
<b>Non-current liabilities</b>							
Deferred income		7,044	-	7,044	4,459	-	4,459
Deferred tax liabilities		-	-	-	64	-	64
		<u>7,044</u>	<u>-</u>	<u>7,044</u>	<u>4,523</u>	<u>-</u>	<u>4,523</u>
<b>Total liabilities</b>		<u>10,410</u>	<u>-</u>	<u>10,410</u>	<u>8,370</u>	<u>-</u>	<u>8,370</u>
<b>Net assets</b>		<u>49,925</u>	<u>(52)</u>	<u>49,873</u>	<u>43,492</u>	<u>949</u>	<u>44,389</u>
<b>Equity</b>							
Share capital		2	-	2	2	-	2
Share premium		54,737	-	54,737	54,737	-	54,737
Capital contributions		9,551	-	9,551	13,111	-	13,111
Retained earnings	<i>a, b</i>	(14,365)	(52)	(14,417)	(24,358)	949	(23,461)
<b>Total equity</b>		<u>49,925</u>	<u>(52)</u>	<u>49,873</u>	<u>43,492</u>	<u>949</u>	<u>44,389</u>

## Notes (continued)

### 22 Explanation of transition to Adopted IFRSs (continued)

#### Reconciliation of loss for 31 December 2016

	Note	UK GAAP £000	2016 Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
<b>Revenue</b>		<b>2,585</b>	-	<b>2,585</b>
Cost of sales		-	-	-
<b>Gross profit</b>		<b>2,585</b>	-	<b>2,585</b>
Administration and research and development expenses	b	(14,641)	949	(13,692)
<b>Operating profit before net financing costs</b>		<b>(12,056)</b>	<b>949</b>	<b>(11,107)</b>
Financial income		101	-	101
<b>Net financing income</b>		<b>101</b>	-	<b>101</b>
<b>Profit before tax</b>		<b>(11,955)</b>	<b>949</b>	<b>(11,006)</b>
Taxation		1,962	-	1,962
<b>Profit for the year</b>		<b>(9,993)</b>	<b>949</b>	<b>(9,044)</b>

#### Notes to the reconciliation of loss and changes in equity

##### a Financial instrument

Under IAS 39, the rental deposit is classified as a financial asset initially recognised at fair value and subsequently measured at amortised cost. The transition adjustment is a result of the rental deposit being measured at cost under UK Accounting Standards.

##### b Intangible assets

In accordance with the previous adopted UK accounting standards licenses acquired were expensed as research and development costs. In accordance with IAS 38 (Intangible assets) licences acquired, are generally an example of an intangible asset that could be accounted for within the scope of IFRS.