

Company Registration No. 07543962

Consolidated Financial Statements

Autifony Therapeutics Limited

30 September 2018

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AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2018

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AUTIFONY THERAPEUTICS GROUP

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Berriman
C Large
C Bingham
E Jones
A Pande
IP2IPO Services Limited

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

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STRATEGIC REPORT

PRINCIPAL ACTIVITIES

The principal activity of the company is drug discovery.

BUSINESS REVIEW

In the 2017/18 budget year, Autifony progressed its main drug development programme for schizophrenia with the initiation of a Phase Ib clinical study of AUT00206 in patients with schizophrenia in the UK. In addition, the company progressed the evaluation and development of backup compounds to AUT00206. These included AUT00201, which was progressed into pre-clinical regulatory safety and toxicology studies with the intention to initiate clinical studies with this compound in the near future. In recognition of the progress made on the Kv3.1/3.2 programme, as outlined above, 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 on achievement of certain milestones.

In addition, Autifony continued its early stage programme for dementia, with financial support from Innovate UK and the Dementia Discovery Fund (DDF). Over the 2017/18 period, Autifony completed key target validation studies and medicinal chemistry exploration leading to milestone payments from the agreement with DDF.

Finally, given the increasing drug discovery activities within Autifony, the company recruited an additional three FTEs into the chemistry group in the UK.

FUTURE DEVELOPMENTS

In December 2018 the company achieved a milestone in accordance with the Boehringer Ingelheim collaboration agreement, giving income of €7.5m. In March 2019 a further milestone was achieved under the same agreement, giving further income of €10m.

RESULTS AND DIVIDENDS

The group's profit for the financial year is £16,243,897 (2017 loss: £1,661,973). The group is not yet in a position to pay a dividend.

RISK MANAGEMENT POLICIES

The principal risks and uncertainties of the Company, the status of which are monitored by management, are as follows:

Programme development risk

Investment in the company is dependent on delivering new drug discovery programmes to a certain stage of validation and compound development, and future revenue is dependent on progression into clinical development. The Company employs teams of experts in development to support the successful development of its programmes, and also collaborates widely with external experts in Universities and Contract Research Organisations.

Competitive technology risk

Autifony focuses on areas of drug discovery where there is limited competition; however, over time competition does increase. This risk is minimised by ensuring early filing of patent applications and avoiding disclosure of Autifony research findings until the programme reaches a later stage of development.

Regulatory risk

The regulatory hurdles for novel drugs are high. The Company has scientific advisers who advise on regulatory matters in the Company's major markets to ensure regulatory approvals can be achieved.

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Intellectual proprietary rights risk

The Company's Intellectual Property may be at risk. The Company continues to invest in protecting its Intellectual Property globally.

Approved by the Board of Directors and signed on behalf of the Board on 8th April 2019



C Large
Director

AUTIFONY THERAPEUTICS GROUP

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 September 2018.

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

E Jones

A Pande

B Soni (appointed 15 December 2017, resigned 12 March 2018)

IP2IPO Services Limited (appointed 12 March 2018)

M Bhama (resigned 15 December 2017)

The company provides Directors and Officers indemnity insurance for the benefit of the directors of the group.

FINANCIAL RISK MANAGEMENT POLICIES

Foreign currency risk

The Company's collaboration agreement with Boehringer Ingelheim is denominated in Euros. The Company has contractual obligations also denominated in Euros and other foreign currency. The group is able to manage its exchange risk through the natural matching of payments and receipts.

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.

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

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DIRECTORS' REPORT (CONTINUED)

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

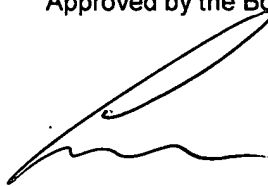
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 8th April 2019 and signed on behalf of the Board.



C Large
Director

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2018

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 subsidiaries (the 'group') for the year ended 30 September 2018, 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 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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.

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 group's or the parent 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.

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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 annual report, 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report 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 strategic report or 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 3, 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

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED FINANCIAL STATEMENTS 2018

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

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.

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. This description forms part of our auditor's report.

Use of our report

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.

Grant Thornton UK LLP

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

2nd April 2019

AUTIFONY THERAPEUTICS GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 September 2018

	Note	Year ended 30 September 2018	Nine month period ended 30 September 2017
		£	£
Other income	9	22,832,005	559,145
Research and development		(5,486,638)	(3,035,968)
General and administration		(1,148,700)	(608,141)
Operating profit/(loss)	3	16,196,667	(3,084,964)
Finance income	13	10,628	22,604
Finance expense	13	(462)	(378)
Profit/(loss) on ordinary activities before taxation		16,206,833	(3,062,738)
Taxation	12	37,064	1,400,765
Profit/(loss) for the year/period		16,243,897	(1,661,973)
Other comprehensive income			
Foreign currency translation differences		1,384	4,709
Total comprehensive profit/(loss) for the year/period		16,245,281	(1,657,264)

All amounts relate to continuing operations.

AUTIFONY THERAPEUTICS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 September 2018

	Note	30 September 2018 £	30 September 2017 £
ASSETS			
Non-current assets			
Intangible assets	5	283,069	368,083
Property, plant & equipment	6	209,691	75,995
Total non-current assets		492,760	444,078
Current assets			
Trade and other receivables	8	489,281	641,126
Cash and cash equivalents		19,365,684	2,586,107
Total current assets		19,854,965	3,227,233
Total assets		20,347,725	3,671,311
LIABILITIES			
Current liabilities			
Trade and other payables	14	1,105,193	672,406
Total current liabilities		1,105,193	672,406
EQUITY			
Share capital	15	25,304	26,983
Capital redemption reserve		1,681	2
Share premium account		24,760,825	24,760,825
Other components of equity		13,149	11,765
Retained earnings		(5,558,427)	(21,800,670)
Total equity		19,242,532	2,998,905
TOTAL LIABILITIES AND EQUITY		20,347,725	3,671,311

The financial statements of Autifony Therapeutics Limited, registered number 07543962, were approved by the Board of Directors and authorised for issue on 8th April 2019.

Signed on behalf of the Board of Directors


C Large
Director

AUTIFONY THERAPEUTICS LIMITED

COMPANY STATEMENT OF FINANCIAL POSITION as at 30 September 2018

	Note	30 September 2018	30 September 2017
		£	£
ASSETS			
Non-current assets			
Intangible assets	5	283,069	368,083
Property, plant & equipment	6	102,130	32,326
Investment	4	8,602	8,602
Total non-current assets		393,801	409,011
Current assets			
Trade and other receivables	8	505,470	592,240
Cash and cash equivalents		19,279,015	2,547,978
Total current assets		19,784,485	3,140,218
Total assets		20,178,286	3,549,229
LIABILITIES			
Current liabilities			
Trade and other payables	14	1,062,661	676,723
Total current liabilities		1,062,661	676,723
EQUITY			
Share capital	15	25,304	26,983
Capital redemption reserve		1,681	2
Share premium account		24,760,825	24,760,825
Retained earnings		(5,672,185)	(21,915,304)
Total equity		19,115,625	2,872,506
TOTAL LIABILITIES AND EQUITY		20,178,286	3,549,229

The company has taken the exemption under section 408 of the Companies Act 2006 to present a full statement of comprehensive income. The profit for the year of the parent company was £16,244,773 (loss for the nine month period to 30 September 2017: £1,651,630).

The financial statements of Autifony Therapeutics Limited, registered number 07543962, were approved by the Board of Directors and authorised for issue on 8th April 2019.

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 2018

	Share capital £	Capital redemption reserve £	Share premium £	Other components of equity £	Retained earnings £	Total equity £
Balance at 1 January 2017	26,897	2	24,760,825	7,056	(20,138,697)	4,656,083
Issue of share capital	86	-	-	-	-	86
Cancellation of shares	-	-	-	-	-	-
Transactions with owners	86	-	-	-	-	86
Loss for the period and total comprehensive income	-	-	-	4,709	(1,661,973)	(1,657,264)
Balance at 30 September 2017	26,983	2	24,760,825	11,765	(21,800,670)	2,998,905
Issue of share capital	184	-	-	-	-	184
Cancellation of shares	(1,863)	1,679	-	-	(1,654)	(1,838)
Transactions with owners	(1,679)	1,679	-	-	(1,654)	(1,654)
Profit for the year and total comprehensive income	-	-	-	1,384	16,243,897	16,245,281
Balance at 30 September 2018	25,304	1,681	24,760,825	13,149	(5,558,427)	19,242,532

AUTIFONY THERAPEUTICS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY For the period ended 30 September 2018

	Share capital £	Capital redemption reserve £	Share premium £	Other components of equity £	Retained earnings £	Total equity £
Balance at 1 January 2017	26,897	2	24,760,825	-	(20,263,674)	4,524,050
Issue of share capital	86	-	-	-	-	86
Cancellation of shares	-	-	-	-	-	-
Transactions with owners	86	-	-	-	-	86
Loss for the year and total comprehensive income	-	-	-	-	(1,651,630)	(1,651,630)
Balance at 30 September 2017	26,983	2	24,760,825	-	(21,915,304)	2,872,506
Issue of share capital	184	-	-	-	-	184
Cancellation of shares	(1,863)	1,679	-	-	(1,654)	(1,838)
Transactions with owners	(1,679)	1,679	-	-	(1,654)	(1,654)
Profit for the period and total comprehensive income	-	-	-	-	16,244,773	16,244,773
Balance at 30 September 2018	25,304	1,681	24,760,825	-	(5,672,185)	19,115,625

AUTIFONY THERAPEUTICS LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF CASH FLOWS For the period ended 30 September 2018

	Group		Company	
	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Cash flows from operating activities				
Profit/(loss) before income tax	16,206,833	(3,062,738)	16,207,709	(3,052,395)
Finance income	(10,628)	(22,604)	(10,628)	(22,604)
Finance expense	462	378	-	80
Depreciation and amortisation	163,404	87,701	129,079	75,087
	16,360,071	(2,997,263)	16,326,160	(2,999,832)
Changes in working capital				
(Increase)/decrease in trade and other receivables	(265,042)	591,818	(330,116)	585,877
Increase/(decrease) in trade and other payables	432,788	(1,217,939)	385,938	(1,149,389)
Net cash used in operations	16,527,817	(3,623,384)	55,822	(3,563,344)
Taxation received	453,950	1,400,765	453,950	1,400,765
Net cash inflow from/(used in) operating activities	16,981,767	(2,222,619)	16,835,932	(2,162,579)
Cash flows from investing activities				
Finance income received	10,628	22,604	10,628	22,604
Purchase of property, plant and equipment	(211,640)	(32,713)	(113,869)	(16,976)
Net cash (used in)/generated from investing activities	(201,012)	(10,109)	(103,241)	5,628
Cash flows from financing activities				
Finance expense paid	(462)	(378)	-	(80)
Proceeds from issue of shares	184	86	184	86
Payment from cancellation of shares	(1,838)	-	(1,838)	-
Net cash (used in)/generated from financing activities	(2,116)	(292)	(1,654)	6
Movements in cash and cash equivalents in the year/period	16,778,639	(2,233,020)	16,731,037	(2,156,945)
Cash and cash equivalents at start of period	2,586,107	4,816,411	2,547,978	4,704,923
Exchange difference on cash and cash equivalents	938	2,716	-	-
Cash and cash equivalents at end of year/period	19,365,684	2,586,107	19,279,015	2,547,978

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

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 year to 30 September 2018. The company changed its prior period accounting date to bring the period end in line with the needs of the business. The comparatives therefore present the results of the business for the nine month period to 30 September 2017.

IFRS is subject to amendment and interpretation by the IASB and the IFRS Interpretations Committee, and there is an on-going process of review and endorsement by the European Commission. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 30 September 2018.

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 2018. Autofony SRL has a reporting date of 31 December.

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

Going concern

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

The 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.

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

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.

Revenue recognition

Option and asset sale

Income is recognised under contractual agreement when performance under the contract has occurred and income is earned. An assignment of rights for a non refundable amount under a contractual agreement where the Company has no remaining obligations is recognised when the fee is due.

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

Year ended 30 September 2018

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

Year ended 30 September 2018

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.
Capital redemption reserve	-	arising from the purchase of the Company's own share capital

Retained earnings includes all current and prior period retained profits and share-based employee remuneration.

Share based payments

The group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the group.

The cost of equity settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised in employee benefits expense, together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

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.

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

2. ACCOUNTING POLICIES (CONTINUED)

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.

Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Key judgements

Other revenue from option and asset sale

The upfront payments and milestones are received when performance obligations under the contract have occurred. Management has made judgements regarding timing of revenue recognition, based on the terms of the contractual agreement with Boehringer Ingelheim, that income on upfront payments and milestones is earned when there are no remaining obligations, i.e. payments have been received and the amounts are non-refundable in the event that the contract is cancelled.

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.

New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 October 2017

- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12, and
- Disclosure initiative – amendments to IAS 7.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods or current period.

The Group has not early adopted any standards, interpretation or amendments that have been issued but are not yet effective.

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 have been published but are not mandatory for the Group's accounting period beginning 1 October 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 (effective date 1 January 2018)
- IFRS 16 Leasing (effective 1 January 2019)
- Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

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

Year ended 30 September 2018

3. OPERATING PROFIT/(LOSS)

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

	Group		Company	
	Year ended 30 September 2018	Nine month period ended 30 September 2017	Year ended 30 September 2018	Nine month period ended 30 September 2017
	£	£	£	£
Operating profit/(loss) is after charging:				
Amortisation of patents	85,014	63,750	85,014	63,750
Depreciation of tangible assets	78,390	23,951	44,065	11,337
Operating leases – land and buildings	112,788	45,835	95,380	45,835
Auditors' remuneration – audit services	11,000	10,500	11,000	10,500
Auditors' remuneration – tax compliance services	3,600	3,296	3,600	3,296

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	
			2018	2017
Autifony Srl	Italy	Drug discovery	100%	100%
			Company	
			£	
Cost				
At 1 October 2017 and 30 September 2018			8,602	

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

5. INTANGIBLE FIXED ASSETS

Group & Company:	Intellectual property rights
	£
Gross carrying amount	
Balance at 1 October 2017	850,000
Additions	-
	<hr/>
Balance at 30 September 2018	850,000
	<hr/>
Amortisation and impairment	
Balance at 1 October 2017	481,917
Charge in period	85,014
	<hr/>
Balance at 30 September 2018	566,931
	<hr/>
Carrying amount at 30 September 2018	283,069
	<hr/>

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

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.

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

6. PROPERTY, PLANT AND EQUIPMENT

Group:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
Balance at 1 October 2017	200,129	34,119	234,248
Additions	110,584	101,056	211,640
Effects of foreign exchange	1,383	-	1,383
Balance at 30 September 2018	312,096	135,175	447,271
Depreciation and impairment			
Balance at 1 October 2017	131,073	27,180	158,253
Charge in period	49,715	28,675	78,390
Effects of foreign exchange	937	-	937
Balance at 30 September 2018	181,725	55,855	237,580
Carrying amount at 30 September 2018	130,371	79,320	209,691

Group:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
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
Depreciation and impairment			
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
Carrying amount at 30 September 2017	69,056	6,939	75,995

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company:	Office equipment £	Laboratory equipment £	Total £
Gross carrying amount			
Balance at 1 October 2017	41,941	34,119	76,060
Additions	12,813	101,056	113,869
Balance at 30 September 2018	54,754	135,175	189,929
Depreciation and impairment			
Balance at 1 October 2017	16,554	27,180	43,734
Charge in period	15,390	28,675	44,065
Balance at 30 September 2018	31,944	55,855	87,799
Carrying amount at 30 September 2018	22,810	79,320	102,130

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

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

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 2018	96,162	18,872	-	115,034
30 September 2017	13,966	-	-	13,966

Payments recognised as an expense are disclosed in note 3.

8. TRADE & OTHER RECEIVABLES

	Group 30 September 2018 £	30 September 2017 £
Amounts receivable within one year		
Other receivables	313,663	112,223
Tax recoverable	33,114	450,000
Other taxation and social security	142,504	78,903
	<u>489,281</u>	<u>641,126</u>

	Company 30 September 2018 £	30 September 2017 £
Amounts receivable within one year		
Amounts due from subsidiary undertakings	55,373	-
Other receivables	288,445	90,241
Tax recoverable	33,114	450,000
Other taxation and social security	128,538	51,999
	<u>505,470</u>	<u>592,240</u>

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

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

9. OTHER OPERATING INCOME

	Group		Company	
	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Option and asset sale	22,041,200	-	22,041,200	-
Grants receivable	790,805	559,145	790,805	559,145
	<u>22,832,005</u>	<u>559,145</u>	<u>22,832,005</u>	<u>559,145</u>

On 18 December 2017 the company signed an agreement giving Boehringer Ingelheim an exclusive option to purchase the company's Kv3.1/3.2 positive modulator platform. Income recognised in the year comprises the upfront fees received.

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

10. EMPLOYEES

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

	Year ended 30 September 2018	Nine month period ended 30 September 2017
Administration	3	2
Development	15	11
Non-executive	2	2
Average total persons employed	<u>20</u>	<u>15</u>

As at 30 September 2018 the group had 21 employees (30 September 2017: 15)

Staff costs in respect of these employees were:

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Wages and salaries	1,802,127	959,214
Social security costs	245,636	130,598
Other pension costs	71,093	54,833
Total remuneration	<u>2,118,856</u>	<u>1,144,645</u>

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 2018 in respect of pension are £10,391 (30 September 2017: £19,545).

Key management remuneration:

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Wages and salaries	1,092,203	619,751
Social security costs	143,858	82,928
Other pension costs	34,103	25,733
Total remuneration	<u>1,270,164</u>	<u>728,412</u>

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

Year ended 30 September 2018

11. DIRECTORS' EMOLUMENTS

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Aggregate emoluments	302,198	198,792
Company contributions to a money purchase pension scheme	12,120	8,825
	<u>314,318</u>	<u>207,617</u>

During the period retirement benefits were accruing to 1 director (2017: 1) in respect of money purchase pension schemes.

Highest paid director

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Aggregate emoluments	250,688	161,010
Company contributions to a money purchase pension scheme	12,120	8,825
	<u>262,808</u>	<u>169,835</u>

12. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
UK corporation tax credit on profit/(loss) for the period	33,114	450,000
Adjustment in respect of previous periods	3,950	950,765
	<u>37,064</u>	<u>1,400,765</u>

The tax assessed for the period is lower than (2017: higher than) the standard rate of corporation tax in the UK of 19% (2017: 19.33%). The differences are explained below:

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

12. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES (CONTINUED)

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Result for the year/period before taxation	16,206,833	(3,062,738)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017: 19.33%)	3,079,298	(592,027)
Expenses not deductible for tax purposes	13,712	3,156
R&D expenditure credits	(745,008)	-
Patent box additional deduction	(1,470,812)	-
Adjustments to tax charge in respect of previous periods	(3,950)	-
Deferred tax (utilised)/not recognised	(910,304)	588,871
Research and development tax credit on losses surrendered	-	(1,400,765)
Total tax	(37,064)	(1,400,765)

Factors that may affect future tax charges

The company takes advantage of the enhanced tax deductions for Research and Development expenditure and relief under patent box and expects to continue to be able to do so.

There are significant losses available to carry forward, estimated at £8.6 million (2017: £13.4 million) for which no deferred tax asset is recognised.

13. FINANCE INCOME AND FINANCE EXPENSE

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Finance income	10,628	22,604

	Year ended 30 September 2018 £	Nine month period ended 30 September 2017 £
Finance expense	462	378

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

14. TRADE AND OTHER PAYABLES

	Group	
	30 September 2018	30 September 2017
	£	£
Trade payables	491,655	146,477
Other taxation and social security	66,810	56,546
Accrued expenses	546,728	469,383
	<u>1,105,193</u>	<u>672,406</u>

	Company	
	30 September 2018	30 September 2017
	£	£
Trade payables	466,499	136,156
Amounts payable to subsidiaries	-	29,956
Other taxation and social security	50,861	41,226
Accrued expenses	545,301	469,385
	<u>1,062,661</u>	<u>676,723</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

Year ended 30 September 2018

15. CALLED UP SHARE CAPITAL

	30 September 2018	30 September 2017
	£	£
Called up, allotted and fully paid		
1,238,912 (2017 - 2,916,787) Ordinary shares of £0.001 each	1,239	2,918
1,400,000 (2017 - 1,400,000) A Ordinary shares of £0.001 each	1,400	1,400
13,021,429 (2017 - 13,021,429) Series A Preferred shares of £0.001 each	13,021	13,021
1,698,418 (2017 - 1,698,418) Series A-2 Preferred shares of £0.001 each	1,698	1,698
1,300,000 (2017 - 1,300,000) Series A-2 NV Preferred shares of £0.001 each	1,300	1,300
5,863,459 (2017 - 5,863,459) Series A-3 Preferred shares of £0.001 each	5,863	5,863
783,333 (2017 - 783,333) Series A-3 NV Preferred shares of £0.001 each	783	783
	<u>25,304</u>	<u>26,983</u>

Share rights

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

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

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

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

Share issues

During the year ended 30 September 2018 the company purchased and subsequently cancelled 1,861,625 Ordinary shares, and issued 183,750 Ordinary shares of £0.001 each at par.

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

15. CALLED UP SHARE CAPITAL (CONTINUED)

Share options

During the year employees surrendered all options over Ordinary shares which were reissued to them on 29 June 2018 under a new agreement. The vesting period in the new agreement is four years commencing from the date of the original agreement.

On 29 June 2018 the company granted further options to employees over Ordinary shares. The options shall vest fully on the date Boehringer Ingelheim exercise the option as per the Option and Asset Purchase Agreement dated 13 December 2017.

On 12 July 2018 the company granted further options to employees over Ordinary shares. This option issue was following the purchase and subsequent cancellation of the same number of Ordinary shares. The vesting period is four years commencing from the issue date of the original Ordinary shares.

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 2018 the company has 3,423,000 outstanding options over Ordinary shares (2017: 938,000). These have an exercise price of £0.001 per share. No material share based payment charge is calculated to arise.

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.

The Company receives consultancy services from Farmacokinetica Limited, a company controlled by Dr C Large's spouse. During the period £35,608 was paid to Farmacokinetica Limited (2017: nil). The amount owed to Farmacokinetica Limited at 30 September 2018 was £4,241 (2017: nil).

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:

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Assets as per statement of financial position	Group		Company	
	30 September 2018 £	30 September 2017 £	30 September 2018 £	30 September 2017 £
Other receivables	-	-	55,373	-
Cash and cash equivalents	19,365,684	2,586,107	19,279,015	2,547,978
Loans and receivables measured at amortised cost	19,365,684	2,586,107	19,334,388	2,547,978

Liabilities as per statement of financial position	Group		Company	
	30 September 2018 £	30 September 2017 £	30 September 2018 £	30 September 2017 £
Trade payables	491,655	146,477	466,499	136,156
Other payables	546,728	469,383	545,301	499,341
Financial liabilities measured at amortised cost	1,038,383	615,860	1,011,800	635,497

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.

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.

AUTIFONY THERAPEUTICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2018

17. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the group held deposits at call of £13m (2017: £nil) that are expected to readily generate cash inflows for managing liquidity risk.

At September 30, 2018, the group held available £100,000 (2017: £100,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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.