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Financial Statements

Owlstone Medical Limited

For the year ended 31 December 2017



Company No.04955647

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Company information

Company registration number:	04955647
Registered office:	183 Cambridge Science Park Milton Road Cambridge CB4 0GA
Directors:	B Bader P Boyle C Toumazou D Wright (appointed 26 February 2018)
Company Secretary:	D Ruiz Alonso
Bankers:	NatWest Bank plc 23 Market Street Cambridge CB2 3PA
Solicitors:	Bircham Dyson Bell LLP 50 Broadway London SW1H 0BL
Auditors:	Grant Thornton UK LLP 101 Cambridge Science Park Milton Road Cambridge CB4 0FY

Report of the directors

The directors present their report and the financial statements of the Company for the year ended 31 December 2017.

Principal activity

The principal activity of the Company during the year was research, development, manufacture and sale of equipment with a focus on non-invasive diagnostics for cancer, infectious disease and inflammatory disease.

Directors and their interests

The directors who served during the year were as follows:

B Bader

P Boyle

C Toumazou

D Wright was appointed director on 26 February 2018

Directors' and officers' liability insurance

The Company maintains insurance cover for the directors and key personnel against liabilities which may be incurred by them while carrying out their duties.

Financial risk management policies and objectives

The Company manages its key financial risks, further details of which are provided in note 26, as follows:

Liquidity risk

The Company seeks to manage liquidity risk by raising equity, generating revenue and securing grant income and managing operating costs to ensure that it has sufficient liquidity to meet forecast cash requirements and enable the investment in research and development.

Currency risk

Currency risk is managed by holding currency accounts and by seeking to match currency inflows and outflows.

Research and development

The Company's investment in research and development amounted to £3,658,976 (2016: £3,052,127), of which £3,658,976 has been expensed in the year.

Future developments

The Company plans to continue to research, develop, manufacture and sell equipment with a continuing focus on non-invasive diagnostics for cancer, infectious disease and inflammatory disease.

Post balance sheet event

Since the year end the Company has raised £36m from further equity investment.

Report of the directors (continued)

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

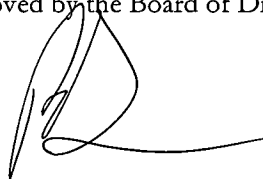
The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

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

Approved by the Board of Directors and signed on behalf of the Board on 28 August 2018.



P Boyle
Director

Strategic report

Principal activities

The principal activity of the Company during the year was research, development, manufacture and sale of equipment based on proven microchip sensor technology with a focus on non-invasive diagnostics for cancer, infectious disease and inflammatory disease.

The Company also provides manufacturing and employee resources to third parties who utilise the Company's technology in markets other than the medical market.

Business review

The company has initiated large scale clinical trials with clinical partners and is actively engaged in clinical research across cancer, inflammation and infectious diseases. We are running large breath based clinical trials and have developed strategic relationships to develop biomarkers for the early detection of cancer.

Key performance indicators

Key performance indicators focused on by the Company are:

	2017	2016
Financial		
The company expects research and development expenditure to increase for the foreseeable future as part of its plan to bring cancer detection biomarkers to market		

Amount expended on research and development for the year	£3,658,976	£3,052,127
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Non Financial

The company expects continuing recruitment in lung cancer trials over the coming years as it seeks to obtain regulatory approval

Number of patients recruited in lung cancer clinical trials (cumulative)	1,768	583
Number of diagnostic outcomes in lung cancer clinical trials (cumulative)	1,520	218
Number of employees engaged in research & development (average)	56	47

Strategic report (continued)

Risk management policies

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

Technology development risk

The Company's future revenue growth is dependent on delivering new technologies to specific markets in the medical field. The Company employs teams of experts in development to support the successful development of its technology.

Revenue growth in the short to medium term in the medical market cannot be pursued until clinical trials have proved to be successful and regulatory approvals received.

Competitive technology risk

The market for the provision of cancer detection solutions is competitive. Our focus is to work with industry leaders to ensure our investment in product development meets unmet needs.

Regulatory risk

The regulatory hurdles 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.

Intellectual proprietary rights risk

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

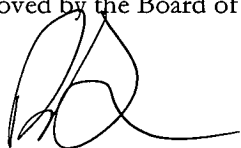
Attracting and retaining talent

The Company needs to grow substantially and employ additional resource. The contribution made by highly skilled and dedicated staff has been, and will continue to be, essential to our future success.

Liquidity

The Company expects that it will continue to incur losses as it seeks to bring its technology to new clinical markets. The Company has secured new investment since the year-end to ensure it has sufficient funds to execute its business plans.

Approved by the Board of Directors and signed on behalf of the Board on 28 August 2018.



P Boyle
Director

Independent auditor's report to the members of Owlstone Medical Limited

Opinion

We have audited the financial statements of Owlstone Medical Limited (the 'company') for the year ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows 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.

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 IFRSs 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 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

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

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

Independent auditor's report to the members of Owlstone Medical Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the 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 has been prepared in accordance with applicable legal requirements.

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Owlstone Medical Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

Grant Thornton UK LLP

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

Date: *29 August 2018*

Statement of comprehensive income

	Notes	2017 £	2016 £
Revenue	4	1,763,731	2,048,836
Cost of sales		(561,652)	(690,958)
Gross profit		1,202,079	1,357,878
Operating expenses		(7,436,679)	(5,695,665)
Other operating income		13,032	-
Operating loss		(6,221,568)	(4,337,787)
Finance income receivable	8	1,149	750
Finance costs payable	9	(169)	(6,237)
Loss for the year before taxation	5	(6,220,588)	(4,343,274)
Tax income	10	1,013,383	671,758
Net loss for the year and total comprehensive loss attributable to the equity shareholders of Owlstone Medical Limited		(5,207,205)	(3,671,516)

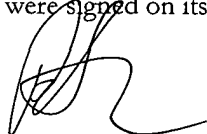
All of the activities of the Company in the current year are classed as continuing and there is no other comprehensive income.

Statement of financial position

		At 31 December 2017	At 31 December 2016
	Notes	£	£
Non-current assets			
Intangible assets	11	350,871	212,446
Property, plant & equipment	12	999,562	627,934
Total non-current assets		1,350,433	840,380
Current assets			
Inventories	13	494,964	558,559
Trade and other receivables	14	919,056	767,123
Corporation tax	18	1,685,141	671,758
Cash and cash equivalents	15	1,795,677	8,096,298
		4,894,838	10,093,738
Total assets		6,245,271	10,934,118
Current liabilities			
Trade and other payables	16	(1,370,362)	(1,034,205)
Provisions			
Warranty	17	(19,990)	(30,204)
Total liabilities		(1,390,352)	(1,064,409)
Net assets		4,854,919	9,869,709
Equity			
Share capital	19	729	723
Share premium account	19	25,898,642	25,898,642
Share option reserve		516,893	324,484
Retained earnings		(21,561,345)	(16,354,140)
		4,854,919	9,869,709

These financial statements were approved by the Board of Directors and authorised for issue on 28 August 2018.

They were signed on its behalf by:



P Boyle
 Director

Registration number: 04955647

The accompanying accounting policies and notes form part of these financial statements.

Statement of changes in equity

	Share capital	Share premium account	Equity reserve	Share option reserve	Retained earnings	Total equity
	£	£	£	£	£	£
Balance at 1 January 2016	505	12,389,052	768,147	-	(12,682,624)	475,080
Increase in share capital in relation to shares issued	218	13,509,590	(768,147)	-	-	12,741,661
Share-option based payment	-	-	-	324,484	-	324,484
Transactions with owners	218	13,509,590	(768,147)	324,484	-	13,066,145
Loss for the year and total comprehensive income	-	-	-	-	(3,671,516)	(3,671,516)
Balance at 31 December 2016	723	25,898,642	-	324,484	(16,354,140)	9,869,709
Increase in share capital in relation to shares issued	6	-	-	-	-	6
Share option based payment	-	-	-	192,409	-	192,409
Transactions with owners	6	-	-	192,409	-	192,415
Loss for the year and total comprehensive income	-	-	-	-	(5,207,205)	(5,207,205)
Balance at 31 December 2017	729	25,898,642	-	516,893	(21,561,345)	4,854,919

The accompanying accounting policies and notes form part of these financial statements.

Statement of cash flows

	Notes	2017 £	2016 £
Cash consumed in operations			
Operating loss		(6,221,568)	(4,337,787)
Adjustments	21	490,490	542,743
Net changes in working capital	21	247,819	(985,758)
Tax received		-	504,850
Cash outflow from operating activities		(5,483,259)	(4,275,952)
Investing activities			
Additions to intangible assets		(167,859)	(88,636)
Additions to property, plant and equipment		(650,489)	(313,523)
Interest received		1,149	750
Cash outflow from investing activities		(817,199)	(401,409)
Financing activities			
Proceeds from share issues		6	12,741,661
Interest paid		(169)	(6,237)
Cash inflow from financing activities		(163)	12,735,424
Net increase in cash and cash equivalents		(6,300,621)	8,058,063
Net changes in cash and cash equivalents			
Cash and cash equivalents, beginning of year		8,096,298	38,235
Cash and cash equivalents, end of year		1,795,677	8,096,298

Notes to the financial statements

1 General information

The Company is a limited company and is incorporated and domiciled in the UK. The address of its registered office is given on page 2.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16 – Leases (effective 1 January 2019)

IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018)

The adoption of IFRS 16 will result in leases currently accounted for as operating leases expected to be recognised as assets with a corresponding liability. IFRS15 'Revenue from contracts with customers' will be adopted for the financial year commencing 1 January 2018. Currently revenue is recognised on the sale of goods when the risk and rewards of ownership have passed to the customer and from services based on when the service is provided. Under IFRS15 the company must evaluate contracts with customers to determine the distinct performance obligations. Whilst the new financial reporting standard represents significance new guidance, the implementation of his guidance is not expected to have a significant impact on the timing or amount of revenue recognised by the company in any year.

2 Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements are presented in £ sterling.

These financial statements have been prepared under the historical cost convention basis except for share based payments that are measured at fair value through the statement of comprehensive income.

Going Concern

The Company incurred a loss after tax of £5,207,205 for the year ended 31 December 2017 (2016: loss of £3,671,516). The directors expect that the Company will incur increased losses for the foreseeable future as it increases investment in research, development and business development. At the balance sheet date, the company had cash of £1,795,677 (2016 £8,096,298).

Since the year end the Company has raised a further £36m in equity. The directors consider that the Company will have sufficient funding to continue operations over the 12 months from approval of the financial statements.

Revenue

Revenue represents the invoice value of goods and services provided in the year, the value of sales of licences and expert services, stated net of value added tax.

- Income from the sale of instruments is recognised when goods are delivered in accordance with the terms and conditions of sale agreed with the customer.
- Technology services are invoiced in line with service agreements and revenue is recognised on the basis of work performed.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Grants

Income from grants relating to research and development activities is recognised as income when the related expenditure is incurred and shown in other operating income in the statement of comprehensive income.

Intangible assets

Intangible assets comprise expenditure on patents and computer software.

The Company capitalises external costs associated with developing and maintaining patents. These costs include legal and registration fees needed to apply for and secure patents. Patents are not subject to amortisation until issued and placed in use at which point amortisation is charged using the straight-line method over their remaining legal life. The Company expenses any administrative costs related to the legal work on these patents.

The company capitalises external costs incurred in purchasing software licences. These costs are amortised over three years or the length of the licence.

Amortisation is recognized within operating expenses within the Statement of operating income.

Plant and equipment

Plant and equipment are stated at cost, net of depreciation and any provision for impairment of value. Depreciation is provided on all plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected economic useful life. Depreciation is recognised within operating expenses within the Statement of comprehensive income.

The principal annual rates used for this purpose are:

Plant & Machinery	20%
Fixtures & Fittings	20%
Computer Equipment	33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

Research and development

All ongoing research expenditure is expensed in the period in which it is incurred. Where a product is technically feasible, production and sale are intended, a market exists, expenditure can be measured reliably, and sufficient resources are available to complete the project, development costs are capitalised and amortised on a straight-line basis over the estimated useful life of the product. The Company believes its current process for developing products is progressing in line with development plans and continues to progress regulatory approvals through clinical trials.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Impairment testing of intangible assets, plant and equipment

At each balance sheet date, the Company performs an impairment review in respect of intangible assets not yet ready for use and reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment. If any such indication exists, the recoverable amount of the asset (being the higher of fair value less costs to sell and value in use) is estimated in order to determine the extent of any impairment. Any impairment loss is recognised as an expense in the income statement for the period in which it is identified.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, in the ordinary course of business, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow moving or defective items where appropriate and recognised as an expense in the period in which the write-down or loss occurs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits at call with banks. Highly liquid investments with original maturity dates of three months or less are considered to be cash equivalents.

Operating lease agreements

Payments made under operating leases are charged to the profit and loss on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Current and deferred tax

UK Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Amounts expected to be received in respect to UK Research and Development tax credits (available for small and medium sized entities) are shown in the statement of comprehensive income below loss for the year after taxation.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is calculated at taxation rates that are expected to apply in the period when the liability is settled or the asset is recognised. Deferred tax is charged or credited in the income statement unless it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with through the statement of comprehensive income.

Pensions

The Company operates a defined contribution pension scheme. The Company provides no other post-retirement benefits to its employees. Pension costs are charged to the income statement in the period to which they relate.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Financial assets

Cash and trade and other receivables are classified as cash and receivables. These are initially recognised at fair value. Cash and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit or loss.

Provision against trade receivables is made when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in profit or loss.

A financial liability is derecognised only when the obligation is extinguished.

Management uses valuation techniques to determine the fair value of financial instruments when active market quotes are not available, based as far as possible on observable data.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares:
- "Share premium account" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue:
- "Share option reserve" represents the value of the share options vested to date
- "Retained earnings" represents retained profits and losses

Foreign currencies

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Any exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise.

The Company's functional currency is £ sterling.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements

The preparation of financial information in conformity with IFRS requires the directors to make critical accounting estimates and judgements that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

Capitalisation of development costs

The point at which development costs meet the criteria for capitalisation is critically dependent on management's judgement of the probability and measurability of future economic benefits. Management considers that no development costs currently meet the criteria for capitalisation at 31 December 2017, or earlier periods.

4 Revenue

	2017	2016
	£	£
UK	164,386	394,276
Rest of Europe	147,040	188,514
USA	1,407,024	1,380,930
Rest of World	45,281	85,116
	<u>1,763,731</u>	<u>2,048,836</u>

	2017	2016
	£	£
Product	541,779	533,188
Services	1,221,952	1,515,648
	<u>1,763,731</u>	<u>2,048,836</u>

Revenue amounting to £1,405,803 (2016: £1,444,466) related to one customer during the year to 31 December 2017 (2016: one) accounting for more than 10% of turnover, of which £1,405,803 was from the USA (2016: £1,352,297 from the USA and £92,169 from the UK).

Notes to the financial statements (continued)

5 Loss for the year before taxation

The loss for the year for the Company is stated after charging:

	2017	2016
	£	£
Research and development expenses	3,658,976	3,052,127
Rentals under operating leases:		
- Land and Buildings	324,998	238,434
- Other equipment	5,476	5,476
Depreciation	278,861	203,161
Amortisation	29,434	34,924
Foreign exchange loss	9,714	17,775
Auditors' remuneration	36,739	35,275

A more detailed analysis of auditors' remuneration is provided below:-

	2017	2016
	£	£
Audit of these financial statements	19,000	30,000
Tax compliance services	3,900	4,175
Tax advisory	13,839	1,100
	<u>36,739</u>	<u>35,275</u>

6 Employee remuneration

Employee benefits expense

Expenses recognised for employee benefits is analysed below for the Company:

Staff costs, including Directors, during the year were as follows:

	2017	2016
	£	£
Wages and salaries	3,601,073	2,972,768
Social security costs	365,015	305,460
Pension contributions & other benefits	146,488	119,657
	<u>4,112,576</u>	<u>3,397,885</u>
Research and development	2,641,519	2,220,451
Other	1,471,057	1,177,434
	<u>4,112,576</u>	<u>3,397,885</u>

Notes to the financial statements (continued)

6 Employee remuneration (continued)

The average number of employees, including all Directors, during the year was as follows:

	2017	2016
	Number	Number
Research and development	56	47
Other	28	22
	<u>84</u>	<u>69</u>

7 Key management remuneration

Key management comprise the directors and other members of the senior management team.

	2017	2016
	£	£
Key management compensation cost	<u>327,629</u>	<u>592,093</u>

Directors' remuneration:

	2017	2016
	£	£
Emoluments	190,000	150,000
Pension contributions	7,500	6,667
Total	<u>197,500</u>	<u>156,667</u>

During the year payments were made to a defined contribution pension scheme on behalf of one director (2016: two) and 16,982 share options for 16,982 shares (2016: nil) were exercised by one director.

8 Finance income receivable

	2017	2016
	£	£
Bank interest	<u>1,149</u>	<u>750</u>

9 Finance costs payable

	2017	2016
	£	£
Other finance costs	<u>169</u>	<u>6,237</u>

Notes to the financial statements (continued)

10 Tax income

Analysis of tax credit in the year

	2017	2016
	£	£
Research and development tax credits	(1,013,383)	(671,758)

The relationship between the expected tax income based on the effective tax rate of the Company at 19.25% (2016: 20%) and the tax income actually recognised in the income statement can be reconciled as follows:

Tax reconciliation	2017	2016
	£	£
Loss for the year before tax	(6,220,588)	(4,343,274)
At the UK rate of corporation tax (19.25%) (2016: 20%)	(1,197,463)	(868,655)
Effects of:		
Amounts not allowable for tax purposes	47,427	73,430
Additional deduction for research & development tax credit	(761,687)	(518,714)
Surrender of tax losses for research & development tax credit	291,460	190,825
Adjustment to deferred at average rates	70,839	129,109
Deferred tax not recognised	536,041	322,247
Tax on loss on ordinary activities	(1,013,383)	(671,758)

11 Intangible assets

	Software	Patents	Total
	£	£	£
Cost			
Cost at 1 January 2016	5,613	188,947	194,560
Additions	25,408	63,228	88,636
Disposals	-	(10,708)	(10,708)
Cost at 31 December 2016	31,021	241,467	272,488
Additions	51,878	115,981	167,859
Cost at 31 December 2017	82,899	357,448	440,347
Amortisation			
At 1 January 2016	468	24,650	25,118
Charge for the year	5,603	29,321	34,924
At 31 December 2016	6,071	53,971	60,042
Charge for the year	17,078	12,356	29,434
At 31 December 2017	23,149	66,327	89,476
Net book value			
At 31 December 2017	59,750	291,121	350,871
At 31 December 2016	24,950	187,496	212,446

Notes to the financial statements (continued)

12 Property, plant and equipment

	Plant & machinery £	Fixtures & fittings £	Computer equipment £	Total £
Cost:				
At 1 January 2016	980,431	176,525	141,659	1,298,615
Additions	248,886	32,709	31,928	313,523
At 31 December 2016	1,229,317	209,234	173,587	1,612,138
Additions	540,472	48,663	61,354	650,489
At 31 December 2017	1,769,789	257,897	234,941	2,262,627
Depreciation:				
At 1 January 2016	549,594	132,135	99,314	781,043
Provided in the year	165,775	12,153	25,233	203,161
At 31 December 2016	715,369	144,288	124,547	984,204
Provided in the year	191,724	49,233	37,904	278,861
At 31 December 2017	907,093	193,521	162,451	1,263,065
Net book amount:				
At 31 December 2017	862,696	64,376	72,490	999,562
At 31 December 2016	513,948	64,946	49,040	627,934

13 Inventories

	2017 £	2016 £
Finished goods	136,089	196,128
Work in progress	79,424	90,457
Components	279,451	271,974
	494,964	558,559

The cost of inventories recognised as an expense and included in “cost of sales” amounted to £230,617 (2016: £326,303).

Notes to the financial statements (continued)

14 Trade and other receivables

	2017	2016
	£	£
Trade receivables	470,564	411,364
Other receivables	225,089	177,016
Prepayments	223,403	178,743
	<u>919,056</u>	<u>767,123</u>

The carrying value of trade receivables is considered a reasonable approximation of fair value. All of the receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and provisions for doubtful debts have been recorded as follows.

	2017	2016
	£	£
Provision at 1 January	15,420	-
(Reduction)/additional provision	(15,420)	15,420
Provision at 31 December	<u>-</u>	<u>15,420</u>

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows:

	2017	2016
	£	£
More than 1 month	<u>267,715</u>	<u>281,021</u>

Included within other receivables are rent deposits which are due after more than one year.

	2017	2016
	£	£
Rent deposits	<u>82,323</u>	<u>138,136</u>

15 Cash and cash equivalents

Cash and cash equivalents include the following components:

	2017	2016
	£	£
Cash at bank and in hand	<u>1,795,677</u>	<u>8,096,298</u>

Notes to the financial statements (continued)

16 Trade and other payables

Amounts falling due within one year

	2017	2016
	£	£
Trade payables	943,672	601,990
Social security and other taxes	114,639	86,953
Pension liability	36,080	27,620
Other payables	17,900	8,273
Accruals	243,447	180,512
Deferred income	14,624	128,857
	<u>1,370,362</u>	<u>1,034,205</u>

17 Provisions

Warranty

	2017	2016
	£	£
Provision at 1 January	<u>30,204</u>	60,738
Release of provision	(10,214)	(30,534)
Provision at 31 December	<u>19,990</u>	<u>30,204</u>

A provision is recognised when the company has an obligation to cover the future potential repair costs arising as result of sales recognised during the year. The provision comprises the directors' best estimate of the expenditure required to settle the potential future obligation at the balance sheet date.

18 Taxation

	2017	2016
	£	£
Corporation tax debtor	<u>1,685,141</u>	<u>671,758</u>

Subject to the UK tax authority's agreement, the Company has tax losses of approximately £12.2m (2016: £9.0m) available for carry forward and offset against future taxable profits arising from the same trade. The Company has potential unrecognised deferred tax assets in relation to these losses and share scheme deductions regarding unexercised share options.

Notes to the financial statements (continued)

19 Equity

	A Ordinary shares Number	B Ordinary shares Number	Share capital £	Share premium £
Allotted, called up and fully paid				
At 1 January	4,843,101	2,386,215	723	25,898,642
Shares issued	63,963	-	6	-
At 31 December	4,907,064	2,386,215	729	25,898,642

On 15 March 2017 the company issued 58,087 "A" Ordinary shares as a result of employees exercising share options. The exercise price per option was £0.0001.

On 8 May 2017 the company issued 703 "A" Ordinary shares as a result of employees exercising share options. The exercise price per option was £0.0001.

On 20 September 2017 the company issued 5,173 "A" Ordinary shares as a result of employees exercising share options. The exercise price per option was £0.0001.

The material variations in the rights attaching to the "A" Ordinary shares as compared to the "B" Ordinary shares are set out below.

- The consent of the holders of the majority of the A shares is required to disapply pre-emption rights on the allotment of new shares
- The holders of the majority of the A shares have the right to appoint a director (and remove that director and appoint another one in his place)

20 Share options

The Company introduced an EMI stock option scheme on 10 November 2016. The following table summarizes options outstanding and related prices for the shares granted to employees and contractors during the year.

	2017 Number
At 1 January 2017	701,096
Options granted during the year	359,380
Options exercised during the year	(63,963)
Options lapsed during the year	(3,786)
At 31 December 2017	992,727

The options were granted with an exercise price of £0.0001 (2016: £0.0001), an Actual Market Value agreed with HMRC of £2.54 per share (2016: £0.57) and an option life of ten years for 2017 and 2016.

The charge for the year in the accounts relating to vested options was £192,409 (2016: £324,484) valued using the Black Scholes Method.

Notes to the financial statements (continued)

21 Notes to the cash flow statement

Cash flow adjustments and changes in working capital

	Note	2017 £	2016 £
Adjustments:			
Amortisation	11	29,434	34,924
Depreciation	12	278,861	203,161
Share option cost		192,409	324,484
Intangible fixed assets expensed		-	10,708
Warranty provision		(10,214)	(30,534)
		<u>490,490</u>	<u>542,743</u>
		2017 £	2016 £
Net changes in working capital:			
Increase in trade and other receivables		(151,933)	(360,671)
Decrease in inventories		63,595	109,147
Increase/(decrease) in trade and other payables		336,157	(734,234)
		<u>247,819</u>	<u>(985,758)</u>

22 Leases

The Company's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 £	2016 £
Land & buildings		
No later than one year	223,990	324,998
Later than one year and no later than five years	406,429	630,419
Total Land & Buildings	<u>630,419</u>	<u>955,417</u>
Plant & Machinery		
No later than one year	4,337	5,476
Later than one year and no later than five years	2,420	6,757
Total Plant & Machinery	<u>6,757</u>	<u>12,233</u>
Total future aggregate minimum lease payments	<u>637,176</u>	<u>967,650</u>

Notes to the financial statements (continued)

23 Related party transactions

The Company's related parties comprise Owlstone Inc, its Board of Directors and shareholders.

In November 2016 the parent company, Owlstone Inc, distributed all of its shares in the Company to its own shareholders in a corporate demerger.

A director of Owlstone Inc is also a non-executive director of Owlstone Medical Limited and Mr D Ruiz, who is company secretary of Owlstone Medical Limited, is also a director of Owlstone Inc.

	2017	2016
At 31 December	£	£
Included within Statement of Financial Position:		
Amounts due from Owlstone Inc	329,126	228,526
Amounts owed to Owlstone Inc	523	-
Included within Statement of comprehensive income:		
Turnover	1,405,803	1,444,466
Overheads	36,522	2,601
Staff recharges	-	74,721

In addition the company was recharged £702,370 for services on a contract with Owlstone Inc which was invoiced to the customer by Owlstone Medical Limited.

Fees due to Non-executive Directors included within overheads during the year are:-

	2017	2016
	£	£
Independent Non-executive Director	20,000	-
Non-executive Director who is also a director of Owlstone Inc	20,000	-
	<u>40,000</u>	<u>-</u>

There was £10,000 in directors' fees outstanding at 31 December 2017.

The Directors consider the board and shareholding structure to mean that there is no directly identifiable controlling party.

24 Contingent liabilities

There were no contingent liabilities as at 31 December 2017 or 31 December 2016.

25 Capital commitments

The Company had no capital commitments at 31 December 2017 or 31 December 2016.

Notes to the financial statements (continued)

26 Risk management objectives and policies

Credit risk

The Company's principal financial assets are bank balances, cash, trade and other receivables. The credit risk on liquid funds is limited because the counterparties are UK banks with high credit ratings assigned by international credit rating agencies.

The Company currently operates with positive cash and cash equivalents as a result of issuing share capital in anticipation of future funding requirements. The Company's investment policy for cash is therefore one of achieving a return with minimal risks such that the Company has access to cash resources as required. The Company primarily invests in no-notice deposits and has no fixed interest deposits.

The maximum exposure due to credit risk for the Company on trade and other receivables at the reporting date is limited to their carrying values. No collateral is held in respect of these amounts. An impairment of £nil (2016: £15,420) has been made.

Currency risks

The Company's operations are located in the United Kingdom. The Company's transactions are primarily denominated in £ sterling. The Company operates a US Dollar bank account and a Euro bank account. There were no material assets or liabilities denominated in currencies other than £ Sterling at 31 December 2017 or 31 December 2016.

Liquidity risk

Operational cash flow represents ongoing trading revenue and costs, administrative costs and research and development activities. The Company manages its liquidity requirements by the use of cash flow forecasts, raising new equity when required to ensure sufficient cash resources are available to execute planned activities. The Company currently has no undrawn committed facilities as at 31 December 2017.

27 Summary of financial assets and liabilities by category

The carrying amounts of the assets and liabilities as recognised at the balance sheet date of the years under review may also be categorised as follows:

	2017	2016
	£	£
Loans and receivables		
Trade receivables	470,564	411,364
Other receivables	225,089	177,016
Cash and cash equivalents	1,795,677	8,096,298
	2,491,330	8,684,678
Financial liabilities measured at amortised cost		
Trade payables	943,672	601,990
Pension liability	36,080	27,620
Other payables	17,900	8,273
Accruals	243,447	180,512
	1,241,099	818,395

Notes to the financial statements (continued)

28 Capital management policies and procedures

The Company's activities are of a type and stage of development where the most suitable capital structure is that of one almost entirely financed by equity. The directors will reassess the future capital structure when both technical and commercial progress is sufficiently advanced.

The Company's financial strategy is to further develop the Company's technology and engagement with strategic partners towards achieving key regulatory and commercial development milestones. The Company keeps investors informed of its progress and raises additional equity finance at appropriate times.

Cash at bank at year end amount to £1,795,677 (2016: £8,096,298).

29 Post balance sheet events

Since the year end the Company has raised additional equity funds of £36m by issuing new shares.