Cell Medica Limited

Annual Report and Accounts for the year ended 31 December 2016

Company Number: 5620555

Company Information

Registered Number	5620555 (England and Wales)
Registered Office	1 Canal Side Studios 8-14 St Pancras Way London NW1 0QG
Directors	Gregg Sando Nigel Burns Maina Bhaman Thomas Hecht Andrea Ponti Allan Marchington
Secretary	Zafir Qadir
Bankers	Barclays Bank plc Leicester LE87 2BB
Independent Auditors	PricewaterhouseCoopers LLP 3 Forbury Place 23 Forbury Road Reading RG1 3JH

Contents

Strategic Report

Review of the business

Cell Medica Limited (the 'Company') is based in London, United Kingdom. The Company and its subsidiaries (collectively the 'Group' or 'Cell Medica') operate in the United Kingdom, the United States of America, Switzerland and Germany.

Cell Medica is focused on researching, developing, manufacturing and marketing cellular immunotherapies for the treatment of cancer. The Group has a portfolio of clinical-stage and preclinical programmes through which it is developing a range of cell-based immunotherapy products using three proprietary technology platforms including activated cytotoxic T cells, chimeric antigen receptors ('CARs') and engineered T cell receptors ('TCRs').

Cell Medica has attracted investment from top-tier investment firms, including Touchstone Innovations (formerly Imperial Innovations), funds managed by Invesco Perpetual, and funds managed by Woodford Investment Management, as well as public and charitable funding bodies including the Cancer Prevention and Research Institute of Texas ('CPRIT') and the Wellcome Trust.

Within the field of oncology, the Group's development plan is built upon recent but widely embraced research which has revealed how the immune system plays a continuous role in suppressing tumours through a process referred to as immune surveillance wherein the immune system can recognise and eliminate pre-malignant or malignant cells from the body. In this perspective, cancer may be viewed as a result of both abnormal cell development and the ability of cancer cells to evade the immune response.

Intensive scientific research and drug development efforts are now focused on understanding how to re-direct the immune system to recognise cancer cells, counteract their evasion mechanisms and ultimately kill the cancer cells. The new paradigm of immune-oncology is expected to become an important 'fifth pillar' methodology for treating cancer, along with chemotherapy, radiation therapy, hormone therapy and surgery.

Some human cancers are associated with oncogenic viruses, including the Epstein Barr virus ('EBV'), human papilloma virus ('HPV'), hepatitis B and C viruses, as well as others. EBV infects more than 90% of the human population on a latent (persistent but dormant) basis and is associated with Hodgkin lymphomas, non-Hodgkin lymphomas, nasopharyngeal carcinoma and gastric cancer. The molecular mechanisms through which EBV may contribute to malignancy are not well understood; although multiple EBV-related proteins are expressed in infected lymphocytes and the EBV latent membrane protein-1 ('LMP1') is thought to be important for transformation.

Our lead product in the oncology field, baltaleucel-T (CMD-003), is currently under investigation in the CITADEL Phase 2 clinical trial for the treatment of patients with advanced EBV+ NK/T cell lymphomas and the CIVIC Phase 1/2 clinical trial exploring potential therapeutic benefit for patients with advanced diffuse large B cell lymphoma, Hodgkin lymphoma and post-transplant lymphoproliferative disease. Comprised of the patient's own immune cells, baltaleucel-T offers the potential for a targeted approach to cancer treatment with very limited side effects or toxicities. The US FDA granted fast track designation to baltaleucel-T in February 2017 in recognition of the product's potential to address an important unmet clinical need. The clinical trials will continue throughout 2017 and the Company expects to assess the commercial viability of CMD-003 early in 2018.

Strategic Report (continued)

During 2016 we entered into three significant transactions in order to expand our pipeline and to capture important new platform technologies which may prove critical for the development of successful therapeutic products. These include:

- A strategic collaboration with the Baylor College of Medicine ('Baylor') to develop next-generation cellular immunotherapies incorporating both CAR constructs and additional genetically engineered functionality for the treatment of cancers that do not respond to conventional therapies. The collaboration with Baylor will build on the recent clinical success of advanced CAR-modified T cells to recognise and kill cancer cells expressing tumour-associated antigens. The development plan aims to apply the CAR technology to natural killer T ('NKT') cells as a novel immune cell type with biological properties that may be particularly effective for targeting solid tumours. The development plan with Baylor also includes a genetically engineered TCR for use in NKT cells and T cells.

- The acquisition of Delenex Therapuetics AG ('Delenex') has provided Cell Medica with an in-house technology platform to generate antibody single chain variable fragments ('scFv's') which enable CAR-NKT products to target new cancer antigens. The Delenex know-how also provides the capability to engineer immune cells to secrete blocking antibodies which prevent cancer cells from triggering inhibition pathways to down-regulate the immune response.

- A strategic collaboration with University College of London to develop the Dominant TCR technology to improve the expression of engineered TCRs on the membrane surface of T cells thereby increasing the efficacy of these cells for the treatment of cancer. The Dominant TCR technology represents a step forward from the current generation of engineered TCRs which mainly rely upon increased affinity for enhancing T cell functionality. Recent clinical data suggests increased affinity may correlate with increased toxicity and the Dominant TCR technology should avoid this risk.

During 2016, the Group business strategy prioritised the development of the oncology technology platforms with much larger commercial potential while de-emphasizing the allocation of resources to the immune reconstitution products. Continuing this strategy in 2017, the Group will cease all activities with respect to the manufacture and sales of Cytovir CMV and the development of Cytovir ADV.

The Group measures its progress using a variety of key performance indicators relevant to each programme or product. These include monitoring progress against programme milestones and budgets along with other measures as appropriate such as number of patients treated in a trial and the results of those treatments.

Financial Highlights

For the year ended 31 December 2016, the Group recorded a loss of £22,168,000 (2015: £12,679,000) the increase from 2015 reflecting increased clinical trial expenditure and the contribution of post-acquisition losses from Delenex (now Cell Medica Switzerland AG). Net assets have increased to £25,691,000 (2015: £13,429,000), reflecting the £24,750,000 received from the Series B second tranche financing in May and June 2016 and the accounting for the Baylor and Delenex transactions as business combinations. Cell Medica is expected to continue to make significant losses as the Group finances research and clinical trials to develop its ground-breaking cell therapies.

Strategic Report (continued)

In March 2017 Cell Medica closed a £60 million Series C investment round providing the Group with funds to continue to progress research and clinical trials for its three proprietary technology platforms for cell-based immunotherapy products. £20 million was received in March with the remainder due on the achievement of specific milestones.

Principal risks and uncertainties

The Group has identified the following as its principal risks and uncertainties:

- *Availability of funding:* The Group will have a continuing requirement for additional funding as it looks to develop its pipeline of platforms and products. There is a risk that such funding may not be available or, if available, could involve terms, conditions or execution challenges that may result in a delay, reduction, or cessation of the product development programmes or operations, or substantial dilution to our shareholders.
- *Product innovation*: The Group operates in an industry that is subject to rapid new product innovation. The sustainability of our business depends on finding and developing suitable products and solutions to meet the needs of customers and patients to support long-term growth, and securing appropriate protection for and defending our intellectual property.
- *Success of clinical trials:* The Group's commercial viability is inextricably linked to the success of clinical trials which will demonstrate the therapeutic benefit of its cellular immunotherapies. Clinical trials may be delayed, prevented or ultimately unsuccessful, and future clinical results may not reflect results seen in previously conducted preclinical studies and clinical trials. Even if the clinical trials are successful, they may be insufficient to support regulatory approval.
- *Operations and supply chain:* Our business depends on third-party contract research and contract manufacturing organisations; as well as internal efforts in efficient manufacturing, controlled inventory, and overall cost management. There is a risk that we are unable to deliver to the required schedule, quality or cost.
- *Talent retention and organisational change:* Our people are critical to the success of our business and we need to attract, motivate, and retain the best talent we can, not only for our current needs, but also looking ahead to the future or we risk not being able to deliver the Group's objectives.
- *Product safety, quality, regulation:* Given the nature of what we do, product safety and quality is of critical importance. National regulatory authorities enforce a complex series of laws and regulations that govern the products we manufacture and develop. They also review data supporting the safety and efficacy of such products and may also inspect for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing practice regulations. A failure to meets these standards will impact on Cell Medica's reputation and on its ability to deliver successful products.

Strategic Report (continued)

The Group has put in place policies and processes that seek to mitigate and manage these risks. These include:

- Close monitoring and forecasting of cash reserves and the availability of future financing.
- Business development efforts focused on identifying new products, co-development and out-licensing opportunities and enabling technologies and solutions.
- Prioritisation and allocation of funds for research and development.
- Performance management and talent systems and processes with focus on identifying key roles and successors.
- Comprehensive product quality processes and controls from design to manufacture.

Approved by the board and signed on behalf of the board.

Gregg Sando, Director
27 April 2017

Directors' Report

The Directors present their report with the audited financial statements of the Group and Company for the year ended 31 December 2016.

Principal activities

The principal activities of the Group in the year under review were researching, developing and manufacturing cellular immunotherapies for the treatment of cancer. The Group has a portfolio of clinical-stage and preclinical programmes through which it is developing a range of cell-based immunotherapy products.

Review of the business and future developments of the Company

Refer to the Strategic Report on page 1.

Directors

The Board of Directors who were in office during the year and up to the date of signing of the financial statements were:

Gregg Sando
Nigel Burns
Maina Bhaman
Thomas Hecht
Andrea Ponti
Allan Marchington (appointed 15 March 2017)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;

Directors' Report (continued)

- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved:

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

Independent auditors

PricewaterhouseCoopers LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2016.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: nil).

Financial risk management

The financial risk management and objectives of the Group and exposure of the Group to foreign currency risk, liquidity risk, interest rate risk and credit risk are set out in note 16, Financial risk management.

Research and development activity

In the year to 31 December 2016 the Group carried out research and development activity and incurred £13,810,000 (2015: £5,628,000) of cost.

Directors' Report (continued)

Director's indemnity provision

The Group has purchased and maintained Directors' and Officers' liability insurance throughout 2015/16.

On behalf of the board:

Gregg Sando, Director
27 April 2017

Independent auditors' report to the members of Cell Medica Limited

Report on the Group financial statements

Our opinion

In our opinion, Cell Medica Limited's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts, comprise:

- the Consolidated Statement of Financial Position as at 31 December 2016;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of Cell Medica Limited (continued)

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on pages 5 and 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Independent auditors' report to the members of Cell Medica Limited (continued)

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company financial statements of Cell Medica Limited for the year ended 31 December 2016.

Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 April 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2016 £'000	2015 £'000
Revenue		**106**	**31**
Grant income		20	10
Research and development expenditure		(13,810)	(5,628)
General and administration expenditure		(6,891)	(7,392)
Operating loss	4	**(20,575)**	**(12,979)**
Finance income	6	38	77
Finance expense	7	(2,637)	-
Loss before tax		**(23,174)**	**(12,902)**
Taxation	8	1,006	223
Loss for the year		**(22,168)**	**(12,679)**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gain on defined benefit obligation	19	194	-
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign entities		686	115
Total other comprehensive income for the year		**880**	**115**
Total comprehensive loss for the year		**(21,288)**	**(12,564)**

The accompanying notes on pages 15 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December

	Note	2016	2015
Assets		**£'000**	**£'000**
Non-current assets			
Property, plant and equipment	10	1,466	247
Intangible assets	11	34,658	-
Trade and other receivables	13	1,438	-
		37,562	**247**
Current assets			
Inventories		85	59
Trade and other receivables	13	1,999	549
Current tax receivable		998	224
Cash and cash equivalents	14	8,189	15,272
		11,271	**16,104**
Total assets		**48,833**	**16,351**
Liabilities			
Current liabilities			
Trade and other payables	15	(4,751)	(2,922)
Non-current liabilities			
Trade and other payables	15	(16,837)	-
Defined benefit pension liability	29	(340)	-
Deferred tax provision	17	(1,214)	-
		(18,391)	-
Total liabilities		**(23,142)**	**(2,922)**
Net assets		**25,691**	**13,429**
Equity			
Share capital	18	1,393	924
Share premium	18	79,770	47,008
Accumulated deficit		(57,543)	(35,569)
Foreign currency translation reserve		991	305
Share-based payment reserve		1,080	761
Total equity		**25,691**	**13,429**

The accompanying notes on pages 15 to 46 form an integral part of these consolidated financial statements.

The financial statements on pages 11 to 46 were authorised for issue by the Board of Directors on 27 April 2017 and were signed on its behalf by

Gregg Sando, Director

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Note	Share capital	Share premium	Accumulated deficit	Foreign currency translation reserve	Share-based payments reserve	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015		924	47,008	(22,890)	190	224	25,456
Loss for the year		-	-	(12,679)	-	-	(12,679)
Other comprehensive income for the year:							
Foreign exchange movements		-	-	-	115	-	115
Total comprehensive expense for the year		-	-	(12,679)	115	-	(12,564)
Share-based payments	20	-	-	-	-	537	537
Balance at 31 December 2015		**924**	**47,008**	**(35,569)**	**305**	**761**	**13,429**
Loss for the year		-	-	(22,168)	-	-	(22,168)
Other comprehensive income for the year:							
Actuarial loss on defined benefit obligation	19	-	-	194	-	-	194
Foreign exchange movements		-	-	-	686	-	686
Total comprehensive expense for the year		**-**	**-**	**(21,974)**	**686**	**-**	**(21,288)**
Share-based payments	20	-	-	-	-	319	319
Issue of ordinary share capital	18	75	5,179	-	-	-	5,254
Issue of preference share capital	18	394	27,583	-	-	-	27,977
Balance at 31 December 2016		**1,393**	**79,770**	**(57,543)**	**991**	**1,080**	**25,691**

The accompanying notes on pages 15 to 46 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Loss before tax		(23,174)	(12,902)
Remove:			
Depreciation	10	332	153
Loss on disposal of plant and equipment, and intangibles		3	16
Foreign exchange (gains)/losses		(474)	82
Share-based payments expense	20	319	537
Defined benefit pension scheme charges	19	64	-
Finance income	6	(38)	(77)
Finance expense	7	2,637	-
Working capital movements:			
Increase in inventories		(26)	(35)
(Increase)/decrease in trade and other receivables		(2,658)	2
Increase in trade and other payables		1,058	1,414
Cash outflow from operations		(21,957)	(10,810)
Interest received		38	77
Interest paid		(3)	-
Income tax received		232	231
Defined benefit scheme contributions	19	(25)	-
Net cash outflow from operating activities		(21,715)	(10,502)
Cash flow from investing activities			
Purchase of property, plant and equipment		(1,380)	(89)
Business combinations – cash paid net of cash acquired with businesses	12	(9,927)	-
Net cash outflow from investing activities		(11,307)	(89)
Net cash from financing activities			
Issue of ordinary shares	18	30	-
Issue of preference shares	18	24,750	-
Net cash inflow from financing activities		24,780	-
Effects of exchange rate changes		1,159	33
Net decrease in cash and cash equivalents		**(7,083)**	**(10,558)**
Cash and cash equivalents at 1 January		15,272	25,830
Cash and cash equivalents at 31 December	14	**8,189**	**15,272**

Non-cash transactions

The principal non-cash transactions in the year relate to the issue of shares as part consideration for both the Baylor and Delenex business combinations as detailed in note 12.

The accompanying notes on pages 15 to 46 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of preparation and significant accounting policies

1.1 Basis of preparation

International Financial Reporting Standards ('IFRS') comprise accounting standards issued or adopted by the International Accounting Standards Board ('IASB') and interpretations issued or adopted by the IFRS Interpretations Committee ('IFRS IC'). The consolidated financial statements have been prepared in accordance with EU endorsed IFRS interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS.

The Consolidated Financial Statements incorporate the financial statements of the Group and entities controlled by the Group made up to the reporting date. The Consolidated Financial Statements have been prepared on a going concern basis and under the historical cost convention as modified by the revaluation of certain financial liabilities. The presentation currency used is sterling. As permitted by IAS 1, for the financial year ended 31 December 2016, the Group changed the level of rounding applied to both the Company and consolidated financial statements and accompanying notes, from to the nearest pound to the nearest thousand.

1.2 Going concern

Cell Medica is a biotechnology company and is subject to a number of risks as with other biotechnology companies in the early stage of development. The Group has a history of operating losses and significant losses are expected to continue as the Group finances clinical trials to enable commercialisation of its therapies.

The Directors have considered the financial position of the Group on the basis of the business plan, the cash balance of £8,189,000 at 31 December 2016 and the availability of future financing including the Series C funding of £60 million announced on 16 March 2017 (of which £20 million was received in March with the remainder due on the achievement of specific milestones) along with the clinical and commercial progress to date, in order to determine that the Group will continue to have the resources necessary to continue in operational existence for the foreseeable future. The Directors have also considered downside risks to the Group's plans and assessed the potential impact these would have on the Group's liquidity.

After reviewing the most recent business plan and analysis, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the Group's financial statements.

1.3 Significant accounting policies

The significant accounting policies adopted by the Group in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all years presented.

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

a. Subsidiaries

Subsidiaries are fully consolidated from the date on which control is transferred to or acquired by the Group. They are deconsolidated from the date that control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. There are no restrictions on the ability of the Company or its subsidiaries to transfer cash to or from the entities within the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

There are no non-controlling interests in the Group.

b. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Revenue is limited to the sale of Cytovir™ CMV and *Strep*tamer® kit.

Revenue from the sale of manufactured products is recognised when the products have been successfully manufactured and the significant risks and rewards of ownership have passed to the buyer, usually on delivery of the products to a healthcare institution. There is no history of returns.

c. Grant income

Grant income is recognised where there is reasonable assurance that the grant will be received and there is compliance with all attached conditions. When the grant relates to an expense item, it is recognised as other operating income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

d. Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Notes to the Consolidated Financial Statements (continued)

1 Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

d. Taxes (continued)

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Consolidated Statement of Financial Position differs from its tax base, except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

e. Research and development

All internal research and development expenditure is expensed in the period in which it is incurred until it meets the measurement and recognition criteria in International Accounting Standard 38, Intangible Assets ('IAS 38').

Due to the regulatory environment in which the Group operates, it is not considered probable that future economic benefit will flow to the Group until after a product has received regulatory approval. The Group currently has no internal research and development expenditure which meets the criteria for capitalisation.

f. Plant and equipment

Plant and equipment is stated at cost, net of depreciation and provision for impairment. Depreciation is calculated to write off the cost of plant and equipment to its' estimated residual value on a straight-line basis over its' expected useful life as follows:

Laboratory equipment	4 years
Computer and office equipment	3 years
Furniture and fittings	4 years

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

g. Intangible assets

In-process research and development and other intangible assets

Intangible assets may be developed internally through our research and development programmes, acquired as part of a business combination or purchased.

Internally developed intangible assets are recognised in accordance with our policy on research and development, note 1.3(e). Intangible assets acquired as part of a business combination are recognised at their acquisition date fair value, separately from goodwill. Purchased intangible assets are recognised at cost.

In process research and development ('IPRD') acquired as part of a business combination or purchased is recognised in accordance with IAS 38 even if the asset has not yet received regulatory approval. All subsequent research and development expenditure is expensed as incurred in accordance with our policy on research and development, note 1.3(e).

Intangible assets which have been put into use are amortised over their estimated useful life; intangible assets, such as IPRD, which have not been put into use are not amortised. Amortising assets are tested for impairment where there is an indicator of impairment. Non-amortising assets are tested for impairment at least annually or more frequently where there is an indicator of impairment.

Goodwill

Goodwill is the excess of the purchase price of an acquisition over the fair value of the identifiable net assets. Goodwill is not subject to amortisation but is tested annually for impairment.

h. Inventories

Inventories are the consumables used in the production process and are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

i. Business combination

The cost of a business combination is measured as the fair value of the assets exchanged, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired together with liabilities and contingent liabilities assumed in a business combination are measured initially at their acquisition date fair values. Subsequent changes to the fair value of contingent liabilities is recognised in accordance with IAS 39 in the Statement of comprehensive income. Acquisition related expenses are expensed as incurred.

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

j. Impairment of assets

When an asset is required to be tested for impairment, either as part of an annual test or because there is an indication of impairment, the Group makes an estimate of the asset's recoverable amount and compares it to the carrying amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount with an impairment loss being recognised as an expense immediately.

An asset's recoverable amount is the higher of its' fair value less costs to sell and its' value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss, other than goodwill, is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of Comprehensive Income.

After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. The Group assesses at each year end date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

k. Fair value

The Group is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The fair value hierarchy prioritises valuation inputs based on the observable nature of those inputs. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The hierarchy defines three levels of valuation inputs:

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

l. Receivables

Trade and other receivables are recorded at fair values, which is the nominal value of invoices unless payment terms require a material adjustment for the time value discounting effect at market interest rates. Trade receivables are subsequently measured at amortised cost. Receivables are classified as current assets, except for those with a maturity exceeding twelve months at the reporting date.

m. Financial liabilities at amortised cost

Financial liabilities at amortised cost comprise trade and other payables. Financial liabilities are valued at amortised cost. Financial liabilities are recognised on the transaction date, which is the date of becoming party to the contractual provisions of the instrument. Financial liabilities are derecognised when our contractual obligations are discharged, cancelled or expire.

n. Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss ('FVTPL') comprise contingent consideration acquired in business combinations, including contingent milestone and royalty payments, and price protection for Baylor preference share. In accordance with IAS 39, financial liabilities at FVTPL are initially recognised at fair value with subsequent changes to the fair value recognised in the Consolidated statement of comprehensive income within finance expense. Transaction costs are recognised immediately in the Consolidated statement of comprehensive income.

o. Share capital

Ordinary shares are classified as equity. Preference shares are classified as equity or as a liability depending on their nature. All the Group's preference shares are classified as equity as detailed in note 18. Incremental costs directly attributable to the issuance of new ordinary shares or preference shares are recognised as a deduction from share premium in equity.

p. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held on call with the bank.

q. Prepayments

Prepayments are recognised when an expense is paid in advance, creating benefits beyond the current financial period. Prepayments are measured at transaction price, less any services that are due in relation to the provided expense have been performed by the suppliers.

r. Leases

Leases in which a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

s. Pensions

The Group operates both defined contribution and defined benefit pension schemes.

Contributions into the Group's defined contribution schemes are recognised as an operating cost in the income statement as incurred.

The Company operates a defined benefit pension scheme in Switzerland in accordance with the Swiss law on Pensions. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. Current service cost is recognised in the statement of comprehensive income and reflects the increase in the defined benefit obligation resulting from service in the current year, benefit changes, curtailments and settlements. Net Interest is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. The cost is included in employee benefit expense in the statement of comprehensive income. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

t. Share-based payments

The Company has issued ordinary share options to employees. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in operating profit over the vesting period of the option from the date of grant. The amount to be expensed is determined by reference to the fair value of the options at the grant date. Fair value was measured using an Option Pricing model.

u. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year-end date. All differences are taken to the Consolidated Statement of Comprehensive Income.

Assets and liabilities of subsidiaries that have a functional currency different from the Group's presentation currency (pound sterling) are translated at the closing rate at the date of each statement of financial position presented. Income and expenses are translated at average exchange rates. All resulting exchange differences are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation and significant accounting policies (continued)

1.3 Significant accounting policies (continued)

v. New accounting standards and interpretations

During the year, no new accounting standard became effective which had a significant impact on the Group Consolidated Financial Statements.

Amendments to existing standards and new standards which may apply to the Group in future accounting periods include:

		Effective periods beginning on or after
IAS 7	Disclosure Initiative – Amendments	1 January 2017
IAS 12	Income taxes	1 January 2017
IFRS 2	Share-based payments	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS IC 22	Foreign currency transactions and advance consideration	1 January 2018

Based on the assessment to date and on the Group's current operations these amendments are not expected to have significant impact on the Group's financial statements.

2. Use of estimates and assumptions

The preparation of the Consolidated Financial Statements requires the Group to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. In particular, significant judgement is required in the use of estimates and assumptions in assessing the fair value of assets and liabilities acquired as part of a business combination, in assessing the fair value of financial liabilities held at fair value, and in assessing the share-based payments charge. Additional detail on these areas is provided in the relevant accounting policy in note 1 and in notes 12, 15 and 20.

Notes to the Consolidated Financial Statements (continued)

3. Employee benefit expense

The monthly average number of employees of the Group, including Executive Directors, during the year was:

	2016 No.	2015 No.
Research and development	48	27
General and administration	18	20
Average number of employees	**66**	**47**

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Salaries and other short term employee benefits	5,392	3,736
Social security costs	745	528
Other pension costs (note 19)	211	110
Share-based payments (note 20)	319	537
	6,667	**4,911**

The key management of the Group comprises the Executive and Non-Executive Directors of Cell Medica. These persons have authority and responsibility for planning, directing and controlling the activities of the Group.

Directors' emoluments

	2016 £'000	2015 £'000
Salaries	454	424
Social security costs	40	43
Other pension costs	32	-
Share-based payments (note 20)	139	82
Directors' remuneration	**665**	**549**

Highest paid Director

	2016 £'000	2015 £'000
Aggregate emoluments	515	361
Total	**515**	**361**

The highest paid Director did not exercise any share options in the year. Highest paid Director's emoluments include contributions of £32,000 into a defined contribution pension scheme.

Notes to the Consolidated Financial Statements (continued)

4. Operating loss

The operating loss is stated after charging/(crediting):

	2016	2015
	£'000	£'000
Employee related expense (note 3)	6,667	4,911
Depreciation of property, plant and equipment (note 10)	332	153
Operating lease rentals – land and buildings	608	342
Loss on sale of plant and equipment	3	16
Exchange differences (gains)/losses	(474)	82

5. Auditors' remuneration

	2016	2015
	£'000	£'000
Audit services:		
Fees payable to the Group's auditors and its associates for:		
The audit of the Company and consolidated financial statements	102	46
The audit of the Company's subsidiaries	58	20
Audit related assurance services	-	170
Other assurance services	15	-
Other services:		
Corporate finance transactions	-	253
Taxation services:		
Tax compliance services	-	5
Total fees	**175**	**494**

6. Finance income

	2016	2015
	£'000	£'000
Bank interest	38	77
	38	77

Notes to the Consolidated Financial Statements (continued)

7. Finance expense

	2016	2015
	£'000	£'000
Defined benefit pension scheme - net interest expense	1	-
Other interest expense	3	-
Loss on revaluation of derivative financial instrument (note 15)	1,311	-
Loss on revaluation of contingent consideration held at fair value through profit of loss (note 15)	1,322	-
	2,637	-

8. Taxation

	2016	2015
	£'000	£'000
Tax in respect of current year	998	224
Adjustments for prior year	8	(1)
Current tax credit	1,006	223

The tax credit is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are reconciled below:

	2016	2015
	£'000	£'000
Loss before tax	(23,174)	(12,902)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(4,635)	(2,613)
Effects of:		
Fixed asset differences	1	-
Expenses not deductible for tax	117	99
Research and development tax credit	(399)	(84)
Adjustments for prior year	(8)	1
Unrelieved tax losses and other deductions arising in the year	4,118	2,374
Utilised losses brought forward	(200)	-
Tax Credit	(1,006)	(223)

Notes to the Consolidated Financial Statements (continued)

9. Investment in Subsidiaries

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries is given below. All companies are 100% owned and the share capital disclosed comprises ordinary shares directly held by Cell Medica.

Company	Principal activities	Country of incorporation	Class	Percentage held	Address
Cell Medica Inc.	Immunotherapy products	USA	Ordinary	100%	7501 Fannin St., Ste. 840 Houston, Texas 77054
Cell Medica GmbH	Immunotherapy products	Germany	Ordinary	100%	Robert-Rössle-Straße 10 Haus 31.1 13125 Berlin
Cell Medica Switzerland AG	Immunotherapy products	Switzerland	Ordinary	100%	Wagistrasse 27 CH-8952 Schlieren/ Zürich

Notes to the Consolidated Financial Statements (continued)

10. Property, Plant and Equipment

	Laboratory equipment	Computer and office equipment	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2015	493	106	81	680
Additions	44	42	3	89
Disposals	(29)	(23)	(1)	(53)
At 31 December 2015	508	125	83	716
Business combinations (note 12)	143	8	-	151
Additions	1,129	124	127	1,380
Disposals	(19)	(6)	(1)	(26)
Exchange adjustments	49	8	4	61
At 31 December 2016	1,810	259	213	2,282
Accumulated depreciation				
At 1 January 2015	263	48	41	352
Charge for year	95	37	21	153
Disposals	(15)	(20)	(1)	(36)
At 31 December 2015	343	65	61	469
Charge for year	244	56	32	332
Disposals	(8)	(6)	-	(14)
Exchange adjustments	28	(3)	4	29
At 31 December 2016	607	112	97	816
Net Book Value				
At 31 December 2016	1,203	147	116	1,466
At 31 December 2015	165	60	22	247

Notes to the Consolidated Financial Statements (continued)

11. Intangible assets

	Goodwill	In-process research and development	Total
	£'000	£'000	£'000
Cost			
At 1 January 2015 and 1 January 2016	-	-	-
Business combinations:			
Baylor College of Medicine (note 12)	2,421	24,981	27,402
Delenex Therapeutics AG (note 12)	1,434	5,623	7,057
Foreign exchange movements	40	159	199
At 31 December 2016	3,895	30,763	34,658
Net Book Value			
At 31 December 2016	3,895	30,763	34,658
At 31 December 2015	-	-	-

For internal reporting and impairment testing purposes, goodwill has been allocated to the Group's single operating segment, which is therefore considered to be the cash-generating unit ('CGU') for performing impairment testing of the goodwill and the in-process research and development intangible assets.

The Group has determined the recoverable amount of the CGU based on a value in use calculation. The value in use was calculated using a 24-year discounted cash flow forecast with cash flows beyond this period extrapolated using the long-term growth rate of -10%. Because of the early stage of development of these assets and the typical developmental, regulatory and commercialisation process, a forecast period of longer than five years is appropriate. A 10% decay rate is assumed post patent expiry in line with industry expectations. The cash flow forecasts are based on assumptions about the timing of the development of products, the probability of success of those products, associated costs to complete, capital expenditures and revenue. Assumptions were made based on internal development plans approved by management and external market industry data.

The following are the key assumptions in the calculation of value in use for the CGU:

- Discount rate: A 15% pre-tax rate has been used, which reflects the current market assessment of the time value of money and the risks specific to the CGU;
- Probability of success to market: A range of 7-22% has been used depending on indication, which reflects risks common in the industry and stage of development; and
- Development timing: A range of 5 to 10 years to develop products has been used, depending on stage in the development cycle and based on forecasts approved by management.

Any reasonably possible change in the key assumptions on which the value in use is based would not cause the carrying amount to exceed the recoverable amount of the CGU.

Notes to the Consolidated Financial Statements (continued)

12. Business combinations

Baylor College of Medicine

On 27 May 2016 Cell Medica acquired the exclusive license over platform patents related to engineered natural killer T ('NKT') cells from Baylor College of Medicine ('Baylor'), a Houston, Texas based academic health sciences and research centre, in exchange for US$14,312,500 (£9,971,000) cash and 451,388 preference shares (which are convertible into ordinary shares). Simultaneously, Cell Medica and Baylor entered into a co-development agreement under which Cell Medica will fund research aimed at further development of the licensed technologies to create future products. Baylor will conduct pre-clinical and Phase 1 clinical research under the guidance of a Joint Steering Committee made up of equal members from both parties. Additional payments may be due in the form of contingent consideration and a price protection mechanism as set out below. We have considered the exclusive license agreement and co-development agreement together and have concluded that the combined agreements provide the critical inputs and processes necessary to create an integrated set of activities. In accordance with IFRS 3, Business combinations ('IFRS 3'), we have accounted for these transactions as a business combination.

The collaboration with Baylor will focus on the development of next-generation cellular immunotherapies incorporating both chimeric antigen receptor ('CAR') constructs and additional genetically engineered functionality for the treatment of cancers that do not respond to conventional therapies. The collaboration will build on the recent clinical success of advanced CAR-modified T cells to recognise and kill cancer cells expressing tumour-associated antigens. The development plan aims to apply the CAR technology to NKT cells as a novel immune cell type with biological properties that may be particularly effective for targeting solid tumours. The development plan also includes a genetically engineered T cell receptor ('TCR') for use in NKT cells and T cells.

The consideration paid consists of four elements: cash; BCM preference shares; a price protection mechanism over those shares; and additional contingent consideration relating to future milestones and royalties which may be paid for products successfully developed within the business combination. The fair value of each of these has been assessed as at the date of acquisition. The following table summarises the fair value of the consideration:

	£'000
Cash paid	9,971
BCM Preference shares issued	3,227
Price protection mechanism over BCM preference shares	7,072
Contingent consideration	7,132
Total consideration	**27,402**

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

Baylor College of Medicine (continued)

The BCM preference shares (as with all the preference shares issued by the Company) are convertible to ordinary shares. As such the value of these has been assessed by reference to the value of the diluted ordinary shares of the Company. As the Company does not have a listed share price the fair value of these has been calculated by assessing the Enterprise value of the Company using a discounted cash flow methodology. This involves the calculation of the net present value of the estimated future cash flows of a business using a discount rate that takes into account the time value of money and the risks inherent to the cash flows. The fair value of the shares issued has been assessed as £3,227,000.

The price protection for preference shares issued to Baylor gives downside protection if the value of the preference shares, or ordinary shares if converted, falls below a pre-specified target value at one of two contractual calculation periods – an initial offering of shares to the public or an independent valuation after 31 December 2018. For the purposes of the price protection, the target value of the shares issued was US$14,312,500. The difference between the target value and initial offering price can be settled by the Company either in cash or through the issuance of additional preference shares. The fair value of the consideration has therefore been increased by £7,072,000 to reflect the fair value of the price protection mechanism at the date of acquisition.

The Company may also pay additional amounts of contingent consideration as follows:

- in cash upon realisation of specified milestones for technologies which are under license agreements: up to US$20,000,000 upon dosing of first patient in first pivotal clinical trial; up to US$50,000,000 upon approval by the U.S. Food and Drug Administration or the European Medicines Agency of the first Biological License Application or Marketing Authorisation Application; up to US$35,000,000 upon completion of the first calendar year in which net sales exceed US$250,000,000; up to US$50,000,000 upon completion of the first calendar year in which net sales exceed US$500,000,000; and up to US$75,000,000 upon completion of the first calendar year in which net sales exceed US$1.5 billion; and
- in cash for royalties on net sales of licensed products. Royalty ranges are all in the single digits.

The acquisition date fair value of the contingent consideration has been assessed as £7,132,000. Subsequent changes to the fair value will be recognised in the Statement of comprehensive income. Changes in fair values reflect changes to assumptions regarding probabilities of successful achievement of related milestones and royalty payments, the timing in which the milestones are expected to be achieved or the royalty payments made, the discount rate used to estimate the fair value of the obligation, and changes in foreign currency exchange rates when obligations are payable in a currency other than Sterling.

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

Baylor College of Medicine (continued)

The fair value of assets and liabilities acquired is set out in the table below:

	£'000
Assets	
Intangible assets - in process research and development	24,981
Net assets	24,981
Fair value of consideration	27,402
Goodwill recognised on acquisition	**2,421**

The goodwill of £2,421,000 principally represents synergies expected to be achieved by the use the expertise within Cell Medica which will contribute to the development and commercialisation of the outputs of the collaboration with Baylor.

The goodwill arising from the acquisition is deductible for tax purposes on a subsequent sale of the acquired business only.

During the year, the acquired business contributed £nil to the revenue of the Group and £2,091,000 to the loss of the Group.

Acquisition related costs of £1,024,000 have been charged to general and administrative expenditure for the year ended 31 December 2016.

Delenex Therapeutics AG

On 4 July 2016 Cell Medica purchased 100% of the share capital of Delenex Therapuetics AG ('Delenex'), a privately-held Swiss clinical stage biopharmaceutical company, in exchange for 730,560 ordinary shares of Cell Medica plus additional future consideration contingent on the derivation of value from certain assets. The transaction has been accounted for as a business combination in accordance with IFRS 3.

The acquisition of Delenex has provided Cell Medica with an in-house technology platform to generate antibody single chain fragment variables which enable CAR-NKT products to target new cancer antigens. The Delenex know-how also provides the capability to engineer immune cells to secrete blocking antibodies which prevent cancer cells from triggering inhibition pathways to down-regulate the immune response.

The fair value of the ordinary shares issued as consideration has been assessed as £5,224,000 using methodologies in line with those described for the Baylor business combination above. The contingent consideration has been assessed as £63,000 reflecting the expected cash flows from the assets to which this consideration relates. The total fair value of the consideration has therefore been assessed as £5,287,000.

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

Delenex Therapeutics AG (continued)

The fair value of assets and liabilities acquired is set out in the table below:

	£'000
Assets	
Plant and equipment	151
Intangible assets – in process research and development	5,623
Assets held for sale	91
Cash	44
Trade and other receivables	228
Total assets	**6,137**
Liabilities	
Trade and other payables	(623)
Pension liability	(481)
Deferred tax liability	(1,180)
Total liabilities	**(2,284)**
Net assets	**3,853**
Fair value of consideration	5,287
Goodwill recognised on acquisition	**1,434**

The goodwill of £1,434,000 arising from the acquisition is principally attributable to the value of the acquired workforce and the deferred tax liability related to the intangible. None of the goodwill recognised is deductible for tax purposes.

During the year the acquired business contributed £nil to the revenue of the Group and £1,067,000 to the loss of the Group. Had the acquisition been consolidated from 1 January 2016, the consolidated income statement would show pro-forma revenue and losses of £106,000 and £23,639,000 respectively.

Acquisition related costs of £457,000 have been charged to general and administrative expenditure for the year ended 31 December 2016.

Notes to the Consolidated Financial Statements (continued)

13. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Non-current trade and other receivables		
Other receivables	538	
Prepayments	900	-
	1,438	-
Current trade and other receivables		
Other receivables	836	103
VAT receivable	200	165
Prepayments	963	281
	1,999	549

14. Cash and cash equivalents

	31 December 2016 £'000	31 December 2015 £'000
Cash at bank and in hand	8,189	15,272

15. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Current trade and other payables		
Trade payables	1,600	30
Other payables	140	-
Employee related and other taxes	84	94
Accruals	2,927	2,798
	4,751	2,922
Non-current trade and other payables		
Baylor price protection mechanism	8,382	-
Baylor contingent consideration	8,455	-
	16,837	-

Notes to the Consolidated Financial Statements (continued)

15. Trade and other payables (continued)

The price protection for preference shares issued in conjunction with the Baylor business combination (note 12) is a contractual obligation conditional on the future value of those preference shares. The value of the price protection changes in response to the value of Cell Medica shares and meets the definition under IAS 39 – Financial instruments: Recognition and measurement, to be accounted for as a derivative financial liability and is accounted for at fair value. Subsequent movements in the fair value are recorded in the Consolidated statement of comprehensive income. The price protection liability is valued as a put option using option pricing theory, based on the Black-Scholes framework. This is a level 3 fair value measurement. Key inputs include the current value of a share, the target value of a share and volatility. As at 31 December the current value of a share was assessed in line with the methodologies described in note 12 and volatility was assessed as 76.2%. The target value of a preference share is $31.70. During the year a loss of £1,311,000 has been recorded in the Group's loss for the year within finance expense. Significant changes to any of the key inputs could significantly increase or decrease the fair value of the liability.

The contingent consideration issued in conjunction with the Baylor business combination (note 12) is held at fair value through profit or loss. The consideration is based on a number of outputs which are uncertain. The fair value is assessed based on expectations of these outputs assessed at the balance sheet date and by discounting those obligations back to the balance sheet date. This is a level 3 fair value financial measurement. The key unobservable inputs are the probability of success of a product, the time to develop products, the royalty rate that will apply to revenues from the product, the discount rate and the relevant milestone payments. Details of the potential payments is given in note 12, and the assumptions on development time, discount rate and the probability of success are in line with the assumption disclosed in note 11. During the year a loss of £1,322,000 has been recorded in the Group's loss for the year within finance expense. Significant changes to any of the key inputs could significantly increase or decrease the fair value of the liability.

The table below reconciles the opening and closing balances for these level 3 fair value measurements.

	31 December 2016 £'000	31 December 2015 £'000
At 1 January	-	-
Baylor price protection mechanism (note 12)	7,072	-
Baylor contingent consideration (note 12)	7,132	-
Change in fair value	2,633	-
At 31 December	16,837	-

Notes to the Consolidated Financial Statements (continued)

16. Financial risk management

The board has responsibility for determining the Group's financial risk management objectives and policies. The Group is exposed to a variety of financial risks arising from the Group's operations including liquidity risk, market risk and credit risk.

i. Liquidity risk

Liquidity risk is the risk the Group will not be able to meet its future payment obligations when financial liabilities fall due or be able to fund its ongoing operations. The Group has a history of operating losses and significant losses are expected to continue as the Group finances clinical trials to enable commercialisation of its therapies. The Group manages its operating cash flow through its budgeting and forecasting processes and uses these to identify its future funding requirements. The Group will continue to rely on further equity or other financing in order to continue to meet its future operating needs. Since inception the Group has used equity to finance its operations.

The table below set out the maturity analysis of the Group's financial liabilities based on the undiscounted contractual obligations to make payments. Where payment obligations are in foreign currencies, the spot exchange rate at the balance sheet date is used.

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
At 31 December 2016	**£'000**	**£'000**	**£'000**	**£'000**
Current; Trade and other payables	4,559	-	-	4,559
Non-Current; Other payables	-	9,987	88,586	98,573
	4,559	**9,987**	**88,586**	**103,132**
At 31 December 2015	£'000	£'000	£'000	£'000
Current; Trade and other payables	2,828	-	-	2,828
Non-Current; Other payables	-	-	-	-
	2,828	-	-	2,828

The maturity profile of other payables reflects the undiscounted cash flows from the assessment of the fair value of those liabilities as assessed at 31 December 2016 (see note 15).

Notes to the Consolidated Financial Statements (continued)

16. Financial risk management (continued)

ii. Market risk

Foreign currency risk

Foreign exchange risk arises when transactions or recognised assets or liabilities are denominated in a functional currency other than sterling. The Group's exposure principally arises when funding is received in sterling and expenditure is denominated in other currencies. The Group's foreign currency risk has increased during the year following the business combinations of Delenex and Baylor.

The Group's policy is to review its funding arrangements and foreign currency commitments for the period ahead and to consider and implement appropriate strategies to mitigate the risks identified. The Group principally looks to hedge its cash flow position, not its balance sheet position, as this is where the Directors consider its principal exposure to be.

The table summarises the Group's balance sheet exposure to foreign currency risk as at 31 December:

	2016	2015	**2016**	2015	**2016**	2015
	$'000	$'000	**€'000**	€'000	**CHF'000**	CHF'000
Net assets	**2,754**	(368)	**748**	138	**7,034**	-

The following table indicates the impact of a 10% change in foreign exchange rate on the net assets at the reporting date.

	2016		**2015**	
	+10%	**-10%**	**+10%**	**-10%**
	£'000	**£'000**	**£'000**	**£'000**
Balance Sheet exposure	770	(941)	(13)	16

The following foreign exchange rates apply to the Group's foreign exchange risk as at 31 December:

	2016	2015	**2016**	2015	**2016**	2015
	USD	USD	**EUR**	EUR	**CHF**	CHF
Exchange rate	**1.234**	1.482	**1.172**	1.357	**1.257**	N/A

iii. Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract. The Group's credit risk arises primarily on its cash deposits. Credit risk is managed on a Group basis. The Group's policy is to deposit cash with financial institutions with a credit rating of A or above.

Notes to the Consolidated Financial Statements (continued)

16. Financial risk management (continued)

Classification of financial assets and liabilities

Financial assets

	31 December 2016	
Group	Loans and receivables £'000	Total £'000
Assets per Balance Sheet		
Trade and other receivables	1,064	1,064
Cash and cash equivalents	8,189	8,189
Total	**9,253**	**9,253**

	31 December 2015	
Group	Loans and receivables £'000	Total £'000
Assets per Balance Sheet		
Trade and other receivables	103	103
Cash and cash equivalents	15,272	15,272
Total	**15,375**	**15,375**

Financial liabilities

	31 December 2016		
Group	Liabilities at fair value through profit and loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities per Balance Sheet			
Other payables	16,837	-	16,837
Trade and other payables	-	4,559	4,559
Total	**16,837**	**4,559**	**21,396**

	31 December 2015		
Group	Liabilities at fair value through profit and loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities per Balance Sheet			
Other payables	-	-	-
Trade and other payables	-	2,828	2,828
Total	**-**	**2,828**	**2,828**

Notes to the Consolidated Financial Statements (continued)

16. Financial risk management (continued)

Capital structure

The Group's objectives when managing capital are to ensure Cell Medica has adequate funds to continue as a going concern and to fund the ongoing plans of the business. To date the Group has been primarily financed through equity.

17. Deferred tax provision

Movements in the provision for deferred tax:

	In-process research and development £'000
Cost	
At 1 January 2015 and 1 January 2016	-
Business combinations - Delenex Therapeutics AG	1,180
Foreign exchange movements	34
At 31 December 2016	1,214

At 31 December 2016, the Group had unrecognised deferred tax assets of £19.9 million (2015: £8.1 million) for surplus tax losses carried forward. In accordance with the requirements of IAS 12 Income Taxes, the deferred tax asset has not been recognised in the Group financial statements due to uncertainty over the level of profits that will be available in the Group in future periods.

Notes to the Consolidated Financial Statements (continued)

18. Share Capital

	31 December 2016		31 December 2015	
	number of shares 000	£000	number of shares 000	£000
Ordinary shares of 10p each authorised, issued and fully paid				
At 1 January	2,053	205	2,053	205
Issued	747	75	-	-
At 31 December	2,800	280	2,053	205
A preference shares of 10p each authorised, issued and fully paid				
At 1 January and 31 December	3,687	369	3,687	369
B preference shares of 10p each authorised, issued and fully paid				
At 1 January	3,497	350	3,497	350
Issued	3,496	349	-	-
At 31 December	6,993	699	3,497	350
BCM preference shares of 10p each authorised, issued and fully paid				
At 1 January	-	-	-	-
Issued	451	45	-	-
At 31 December	451	45	-	-
Total at 31 December	13,931	1,393	9,237	924

On 12 May 2016, 2,097,902 'B class' preference shares of 10 pence each were issued for proceeds of £14,750,000 and on 13 June 1,398,601 'B class' preference shares of 10 pence each were issued for proceeds of £10,000,000.

On 27 May 2016, 451,388 'BCM' preference shares of 10 pence were issued as part consideration for the Baylor business combination (see note 12). The BCM preference shares are not redeemable at the option of the company and as such have been accounted for as equity.

On 4 July 2016, 730,560 ordinary shares of 10 pence were issued as consideration for the acquisition of Delenex (see note 12). A further 16,000 ordinary shares were issued following the exercise of share options for consideration of £30,000.

Notes to the Consolidated Financial Statements (continued)

18. Share Capital (continued)

The B, A and BCM preference shares are convertible to ordinary shares at the option of the holder of the preference shares only and not at the option of the company. Preference shares cannot be redeemed for cash. As such they are accounted for as equity.

Each ordinary and preference share entitles the holder to one vote and each share is entitled pari passu to dividend payments.

On a liquidation event, the assets of the Group remaining after the payment of its liabilities shall be applied and distributed to B preference shareholders first, then A preference shareholders, then BCM preference shareholders, and then ordinary shareholders subsequently, before any excess is distributed evenly amongst all classes.

19. Pensions

Defined contribution pension schemes

The Group operates a defined contribution pension plan in the United Kingdom which covers the employees of Cell Medica Limited. During 2016, the company made contributions into the scheme of £148,000 (2015 – £110,000).

Defined benefit pension schemes

The Group operates a pension plan in Switzerland which covers the employees of Cell Medica Switzerland AG and qualifies as a defined benefit pension scheme under IAS19. The pension plan provides benefits on retirement, death or long-term disability. Swiss law requires minimum pension contributions equal to a percentage of salary and contributions are made equally by the employee and the employer. Accumulated contributions are required to be increased by a minimum rate each year (2016: 1.25%). The accumulated capital (minimum contributions and accumulated savings) must be converted to a retirement pension using a minimum rate (2016: 6.8%). In case of an underfunding of the pension plan, the trustees of the plan may ask for recapitalisation by the employees and the employers.

The pension liability was acquired as part of the Delenex transaction and therefore disclosures are shown as at 31 December 2016 and for the period from acquisition (4 July 2016) to 31 December 2016.

Notes to the Consolidated Financial Statements (continued)

19. Pensions (continued)

The amounts recognised in the Consolidated statement of financial position at 31 December are determined as follows:

	31 December 2016 £000
Present value of obligation	1,356
Fair value of plan assets	(1,016)
Net pension liability	340

The movement in the pension liability from 4 July 2016 to 31 December 2016 is as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 4 July 2016	1,389	(895)	494
Current service cost	63	-	63
Interest expense/(income)	2	(1)	1
Administration costs, excluding cost for managing plan assets	1	-	1
	66	(1)	65
Remeasurements:			
Experience gains	(130)	-	(130)
Return on plan assets, excluding amounts included in interest	-	(57)	(57)
Gain from change in financial assumptions	(7)	-	(7)
	(137)	(57)	(194)
Contributions:			
Employer	-	(25)	(25)
Plan participants	25	(25)	-
Benefits deposited	13	(13)	-
	38	(63)	(25)
31 December 2016	1,356	(1,016)	340

As at 31 December 2016, the present value of the defined benefit obligation was comprised of approximately £1,170,000 relating to active employees and £186,000 relating to members in retirement.

Notes to the Consolidated Financial Statements (continued)

19. Pensions (continued)

The significant actuarial assumptions were as follows:

	2016
Discount rate	0.7%
Inflation	1.0%
Salary growth rate	1.5%
Interest rate on retirement savings capital	1.0%

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics in Switzerland.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
Assumption	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.25%	-4.72%	5.16%
Salary growth rate	0.25%	1.92%	-1.86%
Interest rate on retirement savings capital	0.25%	1.27%	-1.17%
Life expectancy	1 year	1.68%	-1.69%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The weighted average duration of defined benefit obligations is 19.5 years. Expected employer contributions for the year ending 31 December 2017 are £47,000.

20. Share-based payments

Equity-settled share option schemes

Options over 70,000 (2015: 476,083) ordinary shares have been issued to staff members under share option schemes in the year ended 31 December 2016.

Under the rules of the share option schemes, options vest over periods ranging from zero to three years from the commencement of the vesting period, provided the holder remains in service.

Notes to the Consolidated Financial Statements (continued)

20. Share-based payments (continued)

The fair value of the Company's share options granted under share option schemes is assessed using an option pricing model. The key assumptions for the share options awarded in 2016 were:

Date of grant	1 Feb 2016
Number granted	70,000
Share price at date of grant	£2.05
Exercise price	£2.25
Expected volatility	89.90%
Expected life	3.4 years
Risk free rate	0.87%
Fair value at date of grant	£1.77
Discount for lack of marketability	42%

The expected volatility was determined by identifying comparable companies in the biotechnology industry. For each of these companies, their historical volatility was estimated using a look back period commensurate with the longest term to liquidity based on daily stock price returns. Their implied volatility was based on the longest-term options quoted or traded in the market. As the comparable companies were much larger than Cell Medica and operating with strong profits, it was determined that the volatility of Cell Medica would be at the upper end of the volatilities and so the third quartile of the comparable companies was used. The discount for lack of marketability was calculated using the Asia Put Method and Finnerty Method and an average was taken of the two methods.

Details of the number of share options and the weighted average exercise price ('WAEP') outstanding are as follows:

	2016		2015	
	Number of options	WAEP £	Number of options	WAEP £
Outstanding at 1 January	1,342,837	2.02	890,531	1.90
Granted	70,000	2.25	476,083	2.25
Exercised	(16,525)	1.90	-	n/a
Forfeited	(134,998)	1.99	(23,777)	1.94
Outstanding at 31 December	1,261,314	2.04	1,342,837	2.02
Exercisable at the end of the year	886,669	2.00	662,097	1.96

Notes to the Consolidated Financial Statements (continued)

20. Share-based payments (continued)

The following table summarised the range of exercise prices for the share options:

	Number of shares	Weighted average remaining life contractual years £
31 December 2016		
Exercise price		
£1.90	753,603	6
£2.25	507,711	9
	1,261,314	
31 December 2015		
Exercise price		
£1.90	869,498	7
£2.25	473,339	10
	1,342,837	

The total expense arising in the year for share-based payment transactions is £319,000 (2015: £537,000).

21. Leasing commitments

The Group's total commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	31 December 2016 £'000	31 December 2015 £'000
Leases which expire falling due		
Before 1 year	471	279
Between 2 - 5 years	636	268
	1,107	547

The Group leases a number of facilities under operating leases. These include:

Location	Type of space
London	Office
Houston	Laboratory and office
Berlin	Laboratory
Zurich	Laboratory and office

Notes to the Consolidated Financial Statements (continued)

22. Related party transactions

The Group consider key management to comprise Executive Directors and Non-Executive Directors. The remuneration of key management is disclosed in Note 3, Employee Benefit Expense. Members of key management participate in the Company's share option programme (see note 20).

Thomas Hecht, a Director of Cell Medica, was a Director of and shareholder in Delenex Therapeutics AG (Delenex) at the time of its acquisition by Cell Medica, holding 1.1 per cent of its share capital. Due to this conflict of interest he did not participate in related discussions or the vote on the acquisition. As a result of the acquisition he received 7,705 ordinary shares in Cell Medica in exchange for his shareholding in Delenex. See note 12 for more details on the acquisition.

23. Commitments

As described in note 12, during 2016 Cell Medica acquired the exclusive license over platform patents related to engineered natural killer T ('NKT') cells from Baylor College of Medicine ('Baylor'). Simultaneously, Cell Medica and Baylor entered into a co-development agreement under which Cell Medica will fund research aimed at further development of the licensed technologies to create future products. The potential payments under the license are described in more detail in note 12. Under the co-development agreement Cell Medica will fund up to a maximum of $10 million a year over three years, as at 31 December 2016 Cell Medica's commitments amounted to $11 million over the next three years.

In 2016 Cell Medica entered into a sponsored research agreement with University College London (UCL) and UCL Business plc (UCLB), and a simultaneous option and license agreement with UCLB. Under the agreements, Cell Medica will fund early-stage research and development with an exclusive option to license all products within the collaboration. If the Group licenses any technology under the option and license agreement, we may be required to make additional payments in cash upon realisation of specified milestones and for royalties on net sales of licensed products. Under the sponsored research agreement, the Group has agreed to pay up to maximum of £1 million per annum for three years. The Group is able to exit this agreement by giving 6 months notice.

Under a 2010 licensing agreement Cell Medica pays Baylor an annual maintenance fee of $10,000. The maintenance fee is payable until such time as the Group introduces a licensed CMD-003 EBV related product to a commercial market. Once commercialised, the Group is also obligated to pay Baylor a royalty on net sales for the specified licensed products. The Group is also obligated to make milestone payments to Baylor which are payable upon agreed regulatory approval milestones.

A grant was received from the Investitionsbank Berlin ('IBB') for investment in the site in Berlin. Under the terms of the grant, repayment may be required if the production site is closed or if the number of permanent jobs is not maintained. In March the decision was taken to close the site and it is considered likely that this grant will need to be repaid once the site is closed. The total repayment is estimated at €120,000.

Notes to the Consolidated Financial Statements (continued)

24. Ultimate Controlling Party

In the opinion of the Directors, there is no ultimate controlling party.

25. Subsequent events

In March 2017 Cell Medica closed a £60 million Series C investment round providing the Group with funds to continue to progress research and clinical trials for its three proprietary technology platforms for cell-based immunotherapy products. £20 million was received in March with the remainder due on the achievement of specific milestones.

Independent auditors' report to the members of Cell Medica Limited

Report on the Company financial statements

Our opinion

In our opinion, Cell Medica Limited's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016;
- shave been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and accounts, comprise:

- the Company Statement of Financial Position as at 31 December 2016;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of Cell Medica Limited (continued)

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on pages 5 and 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Cell Medica Limited (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the consolidated financial statements of Cell Medica Limited for the year ended 31 December 2016.

Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 April 2017

Company Statement of Financial Position

As at 31 December

	Note	2016	2015
Assets		**£'000**	**£'000**
Non-current assets			
Investments	4	25,900	12,671
Property, Plant and equipment	5	229	68
Intangible assets	6	27,402	-
Other receivables	7	900	-
		54,431	**12,739**
Current assets			
Current tax receivable		998	224
Trade and other receivables	7	1,083	3,394
Cash and cash equivalent		6,205	14,759
		8,286	**18,377**
Total assets		**62,717**	**31,116**
Liabilities			
Current liabilities			
Trade and other payables	8	(2,741)	(1,801)
Non-current liabilities			
Other payables	8	(16,837)	-
Total liabilities		**(19,578)**	**(1,801)**
Net assets		**43,139**	**29,315**
Equity			
Share capital		1,393	924
Share premium		79,770	47,008
Accumulated deficit		(39,104)	(19,378)
Share-based payment reserve		1,080	761
Total equity		**43,139**	**29,315**

For the year ended 31 December 2016 the company recorded a loss of £19,726,000 (2015: £6,125,000).

The financial statements of the Company on pages 50 to 58 were authorised for issue by the Board of Directors on 27 April 2017 and were signed on its behalf by

Gregg Sando, Director

Company Statement of Changes in Equity

For the year ended 31 December

	Note	Share capital	Share premium	Accumulated deficit	Share-based payments reserve	Total
		£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2015		924	47,008	(13,253)	224	34,903
Loss for the year		-	-	(6,125)	-	(6,125)
Total comprehensive loss for the year		**-**	**-**	**(6,125)**	**-**	**(6,125)**
Share-based payments		-	-	-	537	537
Balance at 31 December 2015		**924**	**47,008**	**(19,378)**	**761**	**29,315**
Loss for the year		-	-	(19,726)	-	(19,726)
Total comprehensive loss for the year		**-**	**-**	**(19,726)**	**-**	**(19,726)**
Issue of ordinary share capital		75	5,179	-	-	5,254
Issue of preference share capital		394	27,583	-	-	27,977
Share-based payments		-	-	-	319	319
Balance at 31 December 2016		**1,393**	**79,770**	**(39,104)**	**1,080**	**43,139**

Notes to the Company Financial Statements

1. Basis of Preparation

Cell Medica Limited (the 'Company') is a private company limited by shares, incorporated and domiciled in the United Kingdom.

Result for the year

As permitted by Section 408(4) of the Companies Act 2006, the Company has not presented its own profit and loss account. Losses for the year totalled £19,726,000 (2015: £6,125,000).

The annual financial statements of Cell Medica Limited (the Company financial statements) have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ('FRS 100') and Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

In preparing these financial statements the Company has taken advantage of certain disclosure exemptions from the requirements of IFRS conferred by FRS 101. Therefore, these financial statements do not include:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
- The requirements of IFRS 7 Financial Instruments: Disclosures, provided that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.
- The requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, provided that equivalent disclosures are included in the consolidated financial statements of the Group in which the entity is consolidated.
- The requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements. For accounting periods beginning before 1 January 2013, paragraphs 38A, 38B, 38C, 38D, 40A, 40B, 40C and 40D of IAS 1 (effective 1 January 2013) should be replaced with paragraphs 39 and 40 of IAS 1 (effective 1 January 2009).
- The requirements of IAS 7 Statement of Cash Flows.
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures.
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The financial information for the Company has been prepared on the same basis as the consolidated financial statements, applying identical accounting policies as outlined throughout the notes to the Group Financial Statements.

Notes to the Company Financial Statements (continued)

1. Basis of Preparation (continued)

Going concern

Cell Medica Limited is a biotechnology company and is subject to a number of risks as with other biotechnology companies in the early stage of development. The Company has a history of operating losses and significant losses are expected to continue as the Company finances clinical trials to enable commercialisation of its therapies.

The Directors have considered the financial position of the Company on the basis of the business plan, the cash balance of £6,205,000 at 31 December 2016 and the availability of future financing including the Series C funding of £60 million announced on 16 March 2017 (of which £20 million was received in March with the remainder due on the achievement of specific milestones) along with the clinical and commercial progress to date, in order to determine that the Company will continue to have the resources necessary to continue in operational existence for the foreseeable future. The Directors have also considered downside risks to the Company's plans and assessed the potential impact these would have on the Company's liquidity.

After reviewing the most recent business plan and analysis, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the Company's financial statements.

Notes to the Company Financial Statements (continued)

2. Employee Benefit Expense

The monthly average number of employees of the Company, including Executive Directors, during the year was:

	2016	2015
	No.	No.
Research and development	14	13
General and administration	15	13
Average number of employees	**29**	**26**

Their aggregate remuneration comprised:

	2016	2015
	£'000	£'000
Salaries and other short term employee benefits	2,439	2,057
Social security costs	379	329
Other pension costs	147	84
Share-based payments expense	234	376
	3,199	**2,846**

The Directors are of the opinion that the key management of the Company comprises the Executive and Non-Executive Directors of Cell Medica. These persons have authority and responsibility for planning, directing and controlling the activities of the entity.

Directors' emoluments
Director's emoluments of the Company are the same as the Groups and can be found in Note 3 to the Group Accounts.

3. Auditors' Remuneration

During the year the Company obtained the following services from the Companies's auditors, PricewaterhouseCoopers LLP.

	2016	2015
	£'000	£'000
Audit services:		
Fees payable to the Company's auditors and its associates for the audit of the Company accounts	82	41

In accordance with SI 2008/489 the company has not disclosed the fees payable to the company's auditor for 'Other services' as this information is included in the consolidated financial statements of Cell Medica Limited.

Notes to the Company Financial Statements (continued)

4. Investment

Investments represent holdings in subsidiary undertakings. In accordance with section 409 of the Companies Act 2006, a listing of all entities invested by the consolidated Group is provided in the notes to the Group Financial Statements.

	31 December 2016 £'000	31 December 2016 £'000
At 1 January	12,671	8,462
Additions	13,229	4,209
At 31 December	25,900	12,671

The additions in 2016 relate to the acquisition of Delenex and additional funds to the Company's subsidiary entities.

5. Property, plant and Equipment

	Laboratory equipment £'000	Computer and office equipment £'000	Furniture and Fittings £'000	Total £'000
Cost				
At 1 January 2015	207	79	57	343
Additions	3	23	2	28
Disposals	(11)	(21)	-	(32)
At 31 December 2015	199	81	59	339
Additions	68	33	127	228
Disposals	-	-	(1)	(1)
At 31 December 2016	267	114	185	566
Accumulated depreciation				
At 1 January 2015	168	35	31	234
Charge for year	28	26	14	68
Disposals	(10)	(21)	-	(31)
At 31 December 2015	186	40	45	271
Charge for year	13	27	26	66
Disposals	-	-	-	-
At 31 December 2016	199	67	71	337
Net Book Value				
At 31 December 2016	**68**	**47**	**114**	**229**
At 31 December 2015	13	41	14	68

Notes to the Company Financial Statements (continued)

6. Intangible assets

	Goodwill	In-process research and development	Total
	£'000	£'000	£'000
Cost			
At 1 January 2016	-	-	-
Baylor College of Medicine	2,421	24,981	27,402
At 31 December 2016	2,421	24,981	27,402
Net Book Value			
At 31 December 2016	2,421	24,981	27,402
At 31 December 2015	-	-	-

Further information on the Intangible assets of the Company can be found in Note 11 to the Group Accounts.

7. Trade and other receivables

	31 December 2016 £'000	31 December 2015 £'000
Current trade and other receivables		
Amounts due from Group undertakings	97	3,086
Other receivables	316	51
VAT receivable	120	137
Prepayments	550	120
	1,083	3,394
Non-Current trade and other receivables		
Prepayments	900	-
	900	-

Amounts due from Group undertakings are typically unsecured, due on demand and interest is charged at rates as per intercompany loan agreements.

8. Trade and other payables

	31 December 2016 £'000	31 December 2015 £'000
Current trade and other payables		
Trade Payables	598	8
Other payables	63	-
Social security and other taxes	164	88
Accruals	1,916	1,705
	2,741	1,801
Non-Current trade and other payables		
Other payables	16,837	-
	16,837	-

Notes to the Company Financial Statements (continued)

9. Financial instruments

The company has no financial assets measured at fair value through profit or loss.

The company has the following financial liabilities measured at fair value through profit or loss:

	31 December 2016 £'000	31 December 2015 £'000
Baylor price protection mechanism	8,382	-
Baylor contingent consideration	8,455	-
	16,837	-

Further information on the Financial Instruments of the Company can be found in Note 15 to the Group Accounts.

10. Leasing commitments

The Company's total commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	31 December 2016 £'000	31 December 2015 £'000
Falling due:		
Before 1 year	58	51
Between 1 - 2 years	-	38
	58	89

The Company leases a number of facilities under operating leases. These include:

Location	Type of space
London – Canal Side Studios	Office

Notes to the Company Financial Statements (continued)

11. Related party transactions

Further information on the related party transactions of the Company can be found in Note 22 to the Group Accounts.

12. Ultimate Controlling Party

In the opinion of the Directors, there is no ultimate controlling party.

13. Subsequent events

In March 2017 Cell Medica closed a £60 million Series C investment round providing the Group with funds to continue to progress research and clinical trials for its three proprietary technology platforms for cell-based immunotherapy products. £20 million was received in March with the remainder due on the achievement of specific milestones.