Cell Medica Limited

Annual Report and Accounts
for the year ended 31 December 2017

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 Thomas Hecht Annalisa Jenkins Nigel Pitchford Andrea Ponti Allan Marchington
Secretary	Zafar 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 and Switzerland.

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, developing a range of cell-based immunotherapy products principally through proprietary technology platforms incorporating 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. 2017 saw the first CAR-T products being approved for commercial use with both Novartis and Kite releasing autologous products targeting CD19+ cancers.

In 2017 the Group continued to develop its collaborations with Baylor College of Medicine (Baylor) and University College London (UCL) which were instigated in 2016.

The Baylor collaboration is focused on applying CAR technology to NKT cells (a subset of T cells) which have properties that may be particularly effective in targeting solid tumours. The Group's first CAR-NKT product, targeting GD2, will enter its first trial in early 2018 while a number of other products continue to be developed. The collaboration is also looking at the application of CAR-NKTs in an allogeneic, "off-the-shelf", setting.

The collaboration with UCL continued to work on developing the Dominant TCR technology to improve the expression of engineered TCRs on the surface of T cells to enhance the efficacy of these cells in the treatment of cancer. During 2017, the Group acquired Catapult Therapy TCR Limited (now Cell Medica TCR Limited), a subsidiary of Cell and Gene Therapy Catapult. The acquisition gives Cell Medica access to the WT1-TCR cell therapy being developed by Catapult including two ongoing phase I trials. The WT1-TCR therapy will be integrated with Cell Medica's Dominant TCR platform which is expected to result in a more efficacious product with the potential to treat patients with solid tumours such as mesothelioma.

Strategic Report (continued)

Review of the business

The Group's CITADEL and CIVIC trials for its CMD-003 product continued throughout 2017. CMD-003 utilises EBV-specific T cells for the treatment of lymphomas associated with the Epstein Barr virus. While the data from the trials were positive and supportive of continued investment, the Group has decided to focus on what it believes to be the higher value CAR and TCR platforms. As a result, the CMD-003 trials are to be wound down during 2018. Options to realise the value of this product are being explored including possible combination studies.

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 2017, the Group recorded a loss of £29,904,000 (2016: £22,168,000) the increase from 2016 reflecting a full year of activity from the collaborations with Baylor and UCL together with a higher net finance expense in connection with the revaluation of the contingent consideration liability, the combination of these partly offset by a higher tax credit. Net assets have increased to £41,248,000 (2016: £25,691,000), reflecting the receipt of £45 million of funding from Series C tranches 1 and 2 which more than offset the spend during the year and provide funding for the Group's operations into 2018. 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.

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.

Strategic Report (continued)

Principal risks and uncertainties (continued)

- *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.

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, partnering 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
28 March 2018

Directors' Report

The Directors present their report with the audited financial statements of the Group and Company for the year ended 31 December 2017.

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 (resigned 6 December 2017)
Thomas Hecht
Annalisa Jenkins (appointed 6 December 2017)
Nigel Pitchford (appointed 6 December 2017, resigned 28 March 2018)
Andrea Ponti (resigned 28 March 2018)
Allan Marchington (appointed 15 March 2017)
Sam Williams (appointed 28 March 2018)

Directors' Report (continued)

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;
- 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.

Directors' Report (continued)

Independent auditors

PricewaterhouseCoopers LLP will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: 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 17, Financial risk management.

Research and development activity

In the year to 31 December 2017 the Group carried out research and development activity and incurred £16,493,000 (2016: £13,810,000) of cost.

Political donations

The Group made no political donations during the year (2016: £nil).

Director's indemnity provision

The Group has purchased and maintained Directors' and Officers' liability insurance throughout both 2017 and 2016.

On behalf of the board:

Gregg Sando, Director
28 March 2018

Independent auditors' report to the members of Cell Medica Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Cell Medica Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2017 and of the group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position as at 31 December 2017; the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows for the year then ended; the Company Statement of Financial Position as at 31 December 2017; the Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Sam Taylor (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
10 April 2018

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Note	2017 £'000	2016 £'000
Revenue		**24**	**106**
Other income		135	20
Research and development expenditure		(16,493)	(13,810)
General and administration expenditure		(9,376)	(6,891)
Operating loss	4	**(25,710)**	**(20,575)**
Finance income	6	1,101	38
Finance expense	7	(11,680)	(2,637)
Loss before tax		**(36,289)**	**(23,174)**
Taxation	8	6,385	1,006
Loss for the year		**(29,904)**	**(22,168)**
Other comprehensive income/(expense)			
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gain on defined benefit obligation	20	22	194
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign entities		(383)	686
Total other comprehensive income for the year		**(361)**	**880**
Total comprehensive expense for the year		**(30,265)**	**(21,288)**

The accompanying notes on pages 14 to 48 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December

	Note	2017	2016
Assets		**£'000**	**£'000**
Non-current assets			
Property, plant and equipment	10	1,406	1,466
Intangible assets	11	43,197	34,658
Trade and other receivables	13	777	1,438
		45,380	**37,562**
Current assets			
Inventories		-	85
Trade and other receivables	13	1,800	1,999
Current tax receivable		4,576	998
Cash and cash equivalents	14	28,254	8,189
		34,630	**11,271**
Total assets		**80,010**	**48,833**
Liabilities			
Current liabilities			
Trade and other payables	15	(3,090)	(4,751)
Provisions	16	(150)	-
		(3,240)	**(4,751)**
Non-current liabilities			
Trade and other payables	15	(32,712)	(16,837)
Provisions	16	(101)	-
Defined benefit pension liability	20	(261)	(340)
Deferred tax provision	18	(2,448)	(1,214)
		(35,522)	**(18,391)**
Total liabilities		**(38,762)**	**(23,142)**
Net assets		**41,248**	**25,691**
Equity			
Share capital	19	2,023	1,393
Share premium		124,033	79,770
Accumulated deficit		(87,425)	(57,543)
Foreign currency translation reserve		608	991
Share-based payment reserve		2,009	1,080
Total equity		**41,248**	**25,691**

The accompanying notes on pages 14 to 48 form an integral part of these consolidated financial statements.

The financial statements on pages 10 to 48 were authorised for issue by the Board of Directors on 28 March 2018 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 2016		**924**	**47,008**	**(35,569)**	**305**	**761**	**13,429**
Loss for the year		-	-	(22,168)	-	-	(22,168)
Other comprehensive income for the year:							
Actuarial gain on defined benefit obligation		-	-	194	-	-	194
Foreign exchange movements		-	-	-	686	-	686
Total comprehensive expense for the year		**-**	**-**	**(21,974)**	**686**	**-**	**(21,288)**
Share-based payments	21	-	-	-	-	319	319
Issue of ordinary share capital	19	75	5,179	-	-	-	5,254
Issue of preference share capital	19	394	27,583	-	-	-	27,977
Balance at 31 December 2016		**1,393**	**79,770**	**(57,543)**	**991**	**1,080**	**25,691**
Loss for the year		-	-	(29,904)	-	-	(29,904)
Other comprehensive income/(expense) for the year:		-	-	-	-	-	-
Actuarial gain on defined benefit obligation	20	-	-	22	-	-	22
Foreign exchange movements		-	-	-	(383)	-	(383)
Total comprehensive expense for the year		**-**	**-**	**(29,882)**	**(383)**	**-**	**(30,265)**
Share-based payments	21	-	-	-	-	929	929
Issue of preference share capital	19	630	44,263	-	-	-	44,893
Balance at 31 December 2017		**2,023**	**124,033**	**(87,425)**	**608**	**2,009**	**41,248**

The accompanying notes on pages 14 to 48 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Loss before tax		**(36,289)**	**(23,174)**
Adjustments for:			
Depreciation	10	546	332
(Gain)/loss on disposal of plant and equipment, and intangibles	4	(63)	3
Foreign exchange losses/(gains)		433	(474)
Share-based payments expense	21	929	319
Defined benefit pension scheme service and administrative costs	20	2	64
Finance income	6	(1,101)	(38)
Finance expense	7	11,680	2,637
Working capital movements:			
Decrease / (increase) in inventories		85	(26)
Decrease / (increase) in trade and other receivables		861	(2,658)
(Decrease) / increase in trade and other payables		(2,227)	1,058
Cash outflow from operations		**(25,144)**	**(21,957)**
Interest received		19	38
Interest paid		(8)	(3)
Income tax received		2,806	232
Defined benefit scheme contributions	20	(49)	(25)
Net cash outflow from operating activities		**(22,376)**	**(21,715)**
Cash flow from investing activities			
Purchase of property, plant and equipment		(540)	(1,380)
Proceeds from Disposals		71	-
Business combinations – cash paid net of cash acquired with businesses	12	(1,483)	(9,927)
Net cash outflow from investing activities		**(1,952)**	**(11,307)**
Net cash from financing activities			
Issue of ordinary shares	19	-	30
Issue of preference shares	19	44,893	24,750
Net cash inflow from financing activities		**44,893**	**24,780**
Net increase/(decrease) in cash and cash equivalents		**20,565**	**(7,083)**
Cash and cash equivalents at 1 January		8,189	15,272
Effects of exchange rate changes		(500)	1,159
Cash and cash equivalents at 31 December	14	**28,254**	**8,189**

The accompanying notes on pages 14 to 48 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), interpretations issued by the International Financial Reporting Standards Interpretations Committee and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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. A summary of the more significant accounting policies applied is set out in note 2.

These accounting policies are consistent with those applied in the last annual report and accounts, as amended to reflect the adoption of new standards, amendments and interpretations which become effective in the year. During 2017 amendments to IAS 7 Cash Flow Statements and IAS 12 Income Taxes became effective for the first time for the Group's 31 December 2017 consolidated financial statements. These amendments have not had a significant impact on the Groups 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
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.

Notes to the Consolidated Financial Statements (continued)

1. Basis of preparation (continued)

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 21.

Going concern

Cell Medica is a biotechnology company and, as with other biotechnology companies in the early stage of development, is subject to a number of risks. 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 latest budgets and forecasts, the cash balance of £28.3 million at 31 December 2017 and the availability of future financing from the Series C funding of £60 million (of which £45 million was received in 2017 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 this information, the Directors consider that the entity would have sufficient funding to continue operating for the next twelve months even in the absence of any future funding and consider it appropriate to adopt the going concern basis of accounting in preparing the Group's financial statements.

2 Significant accounting policies

a. Basis of consolidation

The consolidated financial statements include the Company and its subsidiaries. There are no interests in joint arrangements or associates nor are there any non-controlling interests.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Subsidiaries

A subsidiary is an entity which the Company controls. That is when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. 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.

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

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 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 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.

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.

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

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 IAS 38 Intangible Assets.

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. Investment in Subsidiaries

Investments in wholly owned subsidiaries are shown at cost less impairment.

g. Property, 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

h. 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 accounting policy on research and development expenditure. 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 acquired as part of a business combination or purchased is recognised in accordance with IAS 38 Intangible Assets even if the asset has not yet received regulatory approval. All subsequent research and development expenditure is expensed as incurred in accordance with our accounting policy on research and development expenditure.

Intangible assets which have been put into use are amortised over their estimated useful life; intangible assets, such as in-process research and development, 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.

Notes to the Consolidated Financial Statements (continued)

2. Significant accounting policies (continued)

Goodwill

Goodwill arising on business combinations is carried at cost less accumulated impairment losses. Goodwill is assessed for impairment on an annual basis.

i. 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.

j. Business combination

Business combinations are accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. The consideration for an acquisition is the total of the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Costs associated with the acquisition are expensed as incurred. Identifiable assets and liabilities, including contingent liabilities that are possible but not probable, assumed in a business combination are measured initially at their fair values at the acquisition date. Acquired contingent liabilities are subsequently measured at the higher of the initial amount less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue or the amount that would be recognised in accordance with IAS 37 until settled, cancelled or expired. Goodwill arising on an acquisition is the excess of the consideration over the fair value of the identifiable assets and liabilities acquired. Where the fair value of the identifiable assets and liabilities acquired exceeds the consideration this difference is recognised in the income statement at the date of the acquisition.

k. Impairment of assets

The Group's assets are reviewed at each balance sheet date to determine whether events or changes in circumstances exist that indicate that their carrying amount may not be recoverable. If such an indication exists, the asset is tested for impairment. Goodwill and intangible assets that are not subject to amortisation are tested annually for impairment.

When an asset is tested for impairment the Group makes an estimate of the asset's recoverable amount and compares it to the carrying amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. 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 or group of assets.

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 is reversed only if there

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

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. No impairment reversals are permitted to be recognised on goodwill.

l. 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

m. Receivables

Trade and other receivables are recorded initially at fair value and 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.

n. Financial liabilities at amortised cost

Financial liabilities at amortised cost are recognised initially at fair value and subsequently measured 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.

o. Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss include contingent consideration and contingent liabilities acquired in business combinations and the price protection for Baylor preference shares. In accordance with IAS 39, financial liabilities at fair value through profit or loss are initially recognised at fair value with subsequent changes to the fair value recognised in the consolidated statement of comprehensive income within the finance expense line. Transaction costs are recognised immediately in the Consolidated statement of comprehensive income.

p. Share capital

Ordinary shares are classified as equity. Preference shares are classified as equity or as a liability

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

depending on their nature. All the Group's preference shares are classified as equity as detailed in note 19. Incremental costs directly attributable to the issuance of new ordinary shares or preference shares are recognised as a deduction from share premium in equity.

q. Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with banks with original maturities of 3 months or less.

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. The Group does not have any leases which are not operating leases.

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 and past service costs are 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 options over ordinary shares to employees. The cost of granting share options is recognised through the income statement with reference to the fair value of the equity instrument, assessed at the date of grant using an option pricing model. This cost is charged to the income statement over the vesting period of the awards. All awards are accounted for as equity settled with the credit entry being taken directly to equity. For awards with non-market related criteria, the charge is reversed if it is expected that the performance criteria will not be met.

Notes to the Consolidated Financial Statements (continued)

2 Significant accounting policies (continued)

u. Foreign currencies

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, expenses and cash flows are translated at the average exchange rates for the period. All resulting exchange differences are recognised in other comprehensive income.

At entity level, transactions in currencies other than an entities functional currency 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 profit or loss for the year except where these relate to loans to foreign subsidiary entities considered to be part of the net investment in those entities in which case these amounts are recorded through other comprehensive income.

3. Employee benefit expense

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

	2017	2016
	No.	No.
Research and development	42	48
General and administration	27	18
Average number of employees	**69**	**66**

Their aggregate remuneration comprised:	2017	2016
	£'000	£'000
Wages and Salaries	6,843	5,392
Social security costs	801	745
Other pension costs (note 20)	247	211
Share-based payments (note 21)	929	319
	8,820	**6,667**

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	2017	2016
	£'000	£'000
Salaries	461	454
Social security costs	55	40
Other pension costs	12	32
Share-based payments (note 21)	320	139
	848	**665**

Notes to the Consolidated Financial Statements (continued)

3. Employee benefit expense (continued)

The highest paid Director received emoluments totalling £638,000 during 2017 (2016: £515,000) and did not exercise any share options in the year. The highest paid Director's emoluments include contributions of £12,000 (2016: £32,000) into a defined contribution pension scheme.

Directors' emoluments exclude a benefit in kind in respect of historical tax liabilities which is detailed in note 23.

4. Operating loss

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

	2017	2016
	£'000	£'000
Employee related expense (note 3)	8,820	6,667
Depreciation of property, plant and equipment (note 10)	546	332
Operating lease rentals – land and buildings	992	608
(Gain)/loss on sale of plant and equipment	(63)	3
Exchange differences losses/(gains)	433	(474)

5. Auditors' remuneration

	2017	2016
	£'000	£'000
Audit services:		
Fees payable to the Group's auditors and its associates for:		
The audit of the Company and consolidated financial statements	81	102
The audit of the Company's subsidiaries	29	58
Other assurance services	-	15
Total fees	**110**	**175**

6. Finance income

	2017	2016
	£'000	£'000
Bank interest	19	38
Gain on revaluation of derivative financial instrument (note 15)	1,082	-
	1,101	**38**

Notes to the Consolidated Financial Statements (continued)

7. Finance expense

	2017	2016
	£'000	£'000
Defined benefit pension scheme - net interest expense	2	1
Other interest expense	8	3
Loss on revaluation of derivative financial instrument	-	1,311
Loss on revaluation of contingent consideration held at fair value (note 15)	11,670	1,322
	11,680	**2,637**

8. Taxation

	2017	2016
	£'000	£'000
Tax in respect of current year	4,403	998
Adjustments for prior years	1,982	8
Current tax credit	**6,385**	**1,006**

The tax credit is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are reconciled below:

	2017	2016
	£'000	£'000
Loss before tax	(36,289)	(23,174)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 19.25% (2016: 20%)	(6,986)	(4,635)
Effects of:		
Fixed asset differences	3	1
Expenses not deductible for tax	1,832	117
Research and development tax credit	(1,843)	(399)
Adjustments for prior year	(1,982)	(8)
Unrelieved tax losses and other deductions arising in the year	2,700	4,118
Utilised losses brought forward	(109)	(200)
Tax Credit	**(6,385)**	**(1,006)**

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 TCR Limited	Immunotherapy products	United Kingdom	Ordinary	100%	1 Canal Side Studios, 8-14 St Pancras Way, London, NW1 0QG
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 2016	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
Additions	437	20	83	540
Disposals	(13)	(4)	-	(17)
Foreign exchange movements	(42)	(19)	(7)	(68)
At 31 December 2017	2,192	256	289	2,737
Accumulated depreciation				
At 1 January 2016	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
Charge for year	425	72	49	546
Disposals	(5)	(4)	-	(9)
Foreign exchange movements	(10)	(9)	(3)	(22)
At 31 December 2017	**1,017**	**171**	**143**	**1,331**
Net Book Value				
At 31 December 2017	**1,175**	**85**	**146**	**1,406**
At 31 December 2016	1,203	147	116	1,466

Notes to the Consolidated Financial Statements (continued)

11. Intangible assets

	Goodwill	In-process research and development	Total
	£'000	£'000	£'000
Cost			
At 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
Business combinations:			
Cell Medica TCR (note 12)	1,290	7,587	8,877
Foreign exchange movements	(68)	(270)	(338)
At 31 December 2017	5,117	38,080	43,197
Net Book Value			
At 31 December 2017	5,117	38,080	43,197
At 31 December 2016	3,895	30,763	34,658

For internal reporting and impairment testing purposes, goodwill has been allocated to the Group's single operating segment, which is also considered to be the only 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 an 18-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 length of time taken for 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 and taking into account the nature of Cell Medica's products. The cash flow forecast does not assume the addition of new products or technologies beyond those already envisaged. 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.

Notes to the Consolidated Financial Statements (continued)

11. Intangible assets (continued)

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 6-14% has been used depending on indication, which reflects risks common in the industry and stage of development; and
- Development timing: A range of 6 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.

12. Business combinations

Catapult Therapy TCR Limited

On 12 May 2017 Cell Medica acquired 100% of the issued share capital of Catapult Therapy TCR Limited, subsequently renamed Cell Medica TCR Limited ("Cell Medica TCR" or "CM TCR") for cash consideration of £800,000. CM TCR was set up by CGT Catapult, UCL Business and Imperial Innovations for the development of the WT1 T cell receptor cell therapy discovered through research at University College London and Imperial College London. CM TCR holds the In-Process Research and Development assets associated with this development activity including the ongoing phase I clinical trial and clinical trial data. Cell Medica plans to integrate the existing WT1-TCR cell therapy with its Dominant TCR platform which is expected to result in a more efficacious product with the potential to treat patients with solid tumours such as mesothelioma.

The fair value of consideration for the purposes of the Group's financial statements has been assessed as the £800,000 cash paid for the shares plus the fair value of potential future payments due under certain contractual arrangements between CM TCR and its former shareholders, which has been assessed at £2,654,000, giving total consideration of £3,454,000.

The amounts of contingent consideration are as follows:

- in cash upon realisation of specified development, regulatory and cumulative net sales milestones for products which are under license agreements: a maximum of £32 million for a first generation product or a maximum of £16 million for a second generation product; 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 £1,834,000 using a discounted cash flow model. Subsequent changes to the fair value will be recognised in the consolidated statement of comprehensive income. Changes in fair values reflect changes to assumptions regarding probabilities of successful achievement of related milestones and royalty

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

payments, the timing in which the milestones are expected to be achieved or the royalty payments made and the discount rate used to estimate the fair value of the obligation.

The Company may also pay additional amounts in cash for royalties on net sales of licenced products and upon realisation of specified development, regulatory and cumulative net sales milestones of licenced products under certain contractual arrangements in place in CM TCR at the acquisition date. The acquisition date fair value of the contingent liability in relation to these payments has been assessed as £3,453,000 using a discounted cash flow model.

The in-process research and development intangible asset represents the value of the consideration plus the contingent consideration to be paid which represents additional payments under the licence and assignment agreement and the contingent liability reflecting potential future royalties that may become due, and other liabilities on the acquisition balance sheet.

The goodwill of £1,290,000 arising from the acquisition is attributable to the deferred tax liability related to the intangible assets. None of the goodwill recognised is deductible for tax purposes.

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

	£'000
Assets	
Intangible assets – in process research and development	7,587
Total assets	**7,587**
Liabilities	
Trade and other payables	(180)
Contingent liability	(3,453)
Provisions	(500)
Deferred tax provision	(1,290)
Total liabilities	**(5,423)**
Net assets	**2,164**
Fair value of consideration	**3,454**
Goodwill recognised on acquisition	**1,290**

During the year, the acquired business contributed £nil to the revenue of the Group and £356,000 to the loss of the Group. Had the acquisition been consolidated from 1 January 2017, the consolidated income statement would show pro-forma revenue and losses of £nil and £356,000 respectively.

Acquisition related costs of £281,000 have been charged to general and administrative expenditure for the year ended 31 December 2017.

Notes to the Consolidated Financial Statements (continued)

12. Business combinations (continued)

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)

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 Consolidated 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 ended 31 December 2016, 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 Therapeutics 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 assets. None of the goodwill recognised is deductible for tax purposes.

During the year ended 31 December 2016 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 for the year ended 31 December 2016 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 2017 £'000	31 December 2016 £'000
Non-current trade and other receivables		
Other receivables	327	538
Prepayments	450	900
	777	**1,438**
Current trade and other receivables		
Other receivables	877	836
VAT receivable	228	200
Prepayments	695	963
	1,800	**1,999**

14. Cash and cash equivalents

	31 December 2017 £'000	31 December 2016 £'000
Cash at bank and in hand	28,254	8,189

15. Trade and other payables

	31 December 2017 £'000	31 December 2016 £'000
Current trade and other payables		
Trade payables	370	1,600
Other payables	-	140
Employee related and other taxes	129	84
Deferred consideration	137	-
Accruals	2,454	2,927
	3,090	4,751
Non-current trade and other payables		
Baylor price protection mechanism	7,300	8,382
Baylor contingent consideration	19,300	8,455
Cell Medica TCR contingent consideration	2,659	-
Cell Medica TCR contingent liability	3,453	-
	32,712	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 73.9%. The target value of a preference share is $31.70. During the year a gain of £1,082,000 has been recorded in the Group's loss for the year within finance income. 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 £10,845,000 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.

In accounting for the acquisition of Cell Medica TCR Limited (CM TCR), certain contractual arrangements between CM TCR and its former shareholders have been assessed as representing deferred consideration for the purposes of Cell Medica's Group financial statements (see note 12). 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. The potential payments consist principally of sales milestone payments, expected to total less than £20 million, and royalty payment percentages on net sales that are in the low single digits. 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 £825,000 has been recorded in the Group's loss for the year within finance expense in relation to the movement in fair value of contingent consideration from £1,834,000 to £2,659,000. Significant changes to any of the key inputs could significantly increase or decrease the fair value of the liability.

Notes to the Consolidated Financial Statements (continued)

15. Trade and other payables (continued)

Furthermore, certain contractual arrangements in place have been assessed as representing a contingent liability for the purposes of Cell Medica's Group financial statements (see note 12). This is a level 3 fair value financial measurement with the same key unobservable inputs at the date of acquisition as for the valuation of deferred consideration above. The potential payments consist principally of sales milestone payments, expected to total less than £10 million, and royalty payment percentages on net sales that are in the low single digits. The fair value at the date of acquisition 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. The assumptions on development time, discount rate and the probability of success are in line with the assumption disclosed in note 11. Subsequently, the contingent liability is held at the higher of the fair value at acquisition or the amount recognised under IAS 37, until such time that the liability is settled, cancelled or expires.

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

	2017 £'000	2016 £'000
At 1 January	16,837	-
Recognition of Baylor price protection mechanism (note 12)	-	7,072
Recognition of Baylor contingent consideration (note 12)	-	7,132
Recognition of CM TCR contingent consideration (note 12)	1,834	-
Recognition of CM TCR contingent liability (note 12)	3,453	
Change in fair value	10,588	2,633
At 31 December	32,712	16,837

16. Provisions

Cost	Onerous leases £'000	Other £'000	Total £'000
At 1 January	-	-	-
Business combinations (note 12)	-	500	500
Released	-	(500)	(500)
German facility onerous lease	251	-	251
At 31 December	**251**	-	**251**

Split as:	2017 £'000	2016 £'000
Cost		
Less than one year	150	-
Greater than one year	101	-
At 31 December	**251**	-

Notes to the Consolidated Financial Statements (continued)

16. Provisions (continued)

The other provision of £500,000 represented the estimated cost of closing a clinical trial that was expected to occur at the date of acquisition. Subsequently, a decision was taken not to terminate the trial and the provision was therefore released.

The closing provision of £251,000 relates to the recognition of the onerous lease in respect of the facility in Germany.

17. 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 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 2017	**£'000**	**£'000**	**£'000**	**£'000**
Current; Trade and other payables	2,953	-	-	2,953
Non-Current; Other payables	1,840	10,973	118,451	131,264
	4,793	10,973	118,451	134,217

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

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 2017 (see note 15).

Notes to the Consolidated Financial Statements (continued)

17. 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 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 Consolidated Statement of Financial Position exposure to foreign currency risk as at 31 December:

	2017	2016	**2017**	2016	**2017**	2016
	$'000	$'000	**€'000**	€'000	**CHF'000**	CHF'000
Net assets/(liabilities)	(21,042)	2,754	1,196	748	9,058	7,034

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

	2017		**2016**	
	+10%	**-10%**	**+10%**	**-10%**
	£'000	**£'000**	**£'000**	**£'000**
Consolidated Statement of Financial Position exposure	(695)	849	770	(941)

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

	2017	2016	**2017**	2016	**2017**	2016
	USD	USD	**EUR**	EUR	**CHF**	CHF
Exchange rate	1.351	1.234	1.127	1.172	1.318	1.257

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)

17. Financial risk management (continued)

Classification of financial assets and liabilities

Financial assets

	31 December 2017	
Group	Loans and receivables £'000	Total £'000
Assets per Consolidated Statement of Financial Position		
Trade and other receivables	1,206	1,206
Cash and cash equivalents	28,254	28,254
Total	**29,460**	**29,460**

	31 December 2016	
Group	Loans and receivables £'000	Total £'000
Assets per Consolidated Statement of Financial Position		
Trade and other receivables	1,064	1,064
Cash and cash equivalents	8,189	8,189
Total	**9,253**	**9,253**

Financial liabilities

	31 December 2017		
Group	Liabilities at fair value through profit and loss £'000	Other financial liabilities at amortised cost £'000	Total £'000
Liabilities per Consolidated Statement of Financial Position			
Other payables	29,259	3,453	32,712
Trade and other payables	-	2,953	2,953
Total	**29,259**	**6,406**	**35,665**

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

Notes to the Consolidated Financial Statements (continued)

17. 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.

18. Deferred tax provision

Movements in the provision for deferred tax:

	In-process research and development
Cost	**£'000**
At 1 January 2016	-
Business combinations - Delenex Therapeutics AG	1,180
Foreign exchange movements	34
At 31 December 2016	1,214
Business combinations (see Note 12)	1,290
Foreign exchange movements	(56)
At 31 December 2017	**2,448**

At 31 December 2017, the Group had unrecognised deferred tax assets of £16.7 million (2016: £19.9 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.

19. Share Capital

	31 December 2017		31 December 2016	
	number of shares 000	£000	number of shares 000	£000
Ordinary shares of 10p each authorised, issued and fully paid				
At 1 January	2,800	280	2,053	205
Issued	-	-	747	75
At 31 December	2,800	280	2,800	280
A preference shares of 10p each authorised, issued and fully paid				
At 1 January and 31 December	3,687	369	3,687	369

Notes to the Consolidated Financial Statements (continued)

19. Share Capital (continued)

B preference shares of 10p each authorised, issued and fully paid				
At 1 January	6,993	699	3,497	350
Issued	-	-	3,496	349
At 31 December	6,993	699	6,993	699
C preference shares of 10p each authorised, issued and fully paid				
At 1 January	-	-	-	-
Issued	6,294	630	-	-
At 31 December	6,294	630	-	-
BCM preference shares of 10p each authorised, issued and fully paid				
At 1 January	451	45	-	-
Issued	-	-	451	45
At 31 December	451	45	451	45
Total at 31 December	20,225	2,023	13,931	1,393

On 20 March 2017, 2,797,203 'C class' preference shares of 10 pence each were issued for proceeds of £20 million and on 30 November 2017 3,496,504 'C class' preference shares of 10 pence each were issued for proceeds of £25 million.

The C, 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 C preference shareholders first, then B preference shareholders, then A preference shareholders, then BCM preference shareholders, and then ordinary shareholders subsequently, before any excess is distributed evenly amongst all classes.

Notes to the Consolidated Financial Statements (continued)

20. 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 2017, the company made contributions into the scheme of £245,000 (2016: £148,000).

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 (2017: 1.0%, 2016: 1.25%). The accumulated capital (minimum contributions and accumulated savings) must be converted to a retirement pension using a minimum rate (2017: 6.8%, 2016: 6.8%). In case of underfunding, the Pension Board shall introduce appropriate remedial measures in cooperation with the actuarial expert.

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

	31 December 2017 £'000	31 December 2016 £'000
Present value of obligation	1,165	1,356
Fair value of plan assets	(904)	(1,016)
Net pension liability	261	340

Notes to the Consolidated Financial Statements (continued)

20. Pensions (continued)

The movement in the net pension liability from 1 January 2017 to 31 December 2017 is analysed as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
At 1 January 2017	1,356	(1,016)	340
Current service cost	58	-	58
Past service cost	(57)	-	(57)
Interest expense/(income)	9	(7)	2
Administration costs, excluding cost for managing plan assets	1	-	1
	11	(7)	4
Remeasurements:			
Experience gains	(46)	-	(46)
Return on plan assets, excluding amounts included in interest	-	24	24
Gain from change in financial assumptions	-	-	-
	(46)	24	(22)
Contributions:			
Employer	-	(49)	(49)
Plan participants	49	(49)	-
Benefits paid/deposited	(146)	146	-
	(97)	48	(49)
Foreign exchange movements	(59)	47	(12)
At 31 December 2017	1,165	(904)	261

As at 31 December 2017, the present value of the defined benefit obligation was comprised of £993,000 relating to active employees and £172,000 relating to members in retirement.

Notes to the Consolidated Financial Statements (continued)

20. Pensions (continued)

The movement in the net pension liability from 4 July 2016 (the date the pension liability was acquired as part of the Delenex business combination, see note 12) to 31 December 2016 is analysed 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 paid/deposited	13	(13)	-
	38	(63)	(25)
Foreign exchange movements	-	-	-
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.

The significant actuarial assumptions were as follows:

	2017	2016
Discount rate	0.7%	0.7%
Inflation	1.0%	1.0%
Salary growth rate	1.5%	1.5%
Interest rate on retirement savings capital	1.0%	1.0%

Notes to the Consolidated Financial Statements (continued)

20. Pensions (continued)

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

As at 31 December 2017, 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%	-4.49%	+4.95%
Salary growth rate	0.25%	+0.98%	-1.11%
Interest rate on retirement savings capital	0.25%	+1.82%	-1.76%
Life expectancy	1 year	+1.63%	-1.63%

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.

As at 31 December 2017, the weighted average duration of defined benefit obligations is 18.6 years (2016: 19.5 years). Expected employer contributions for the year ending 31 December 2018 are £47,000.

21. Share-based payments

Equity-settled share option schemes

Options over 1,373,168 (2016: 70,000) ordinary shares have been issued to staff members under share option schemes in the year ended 31 December 2017.

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)

21. 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 main awards of options made in 2017 were:

Date of grant	21 Feb 2017	18 Sep 2017
Number granted	681,168	692,000
Share price at date of grant	£1.56	£1.62
Exercise price	£2.25	£2.25
Expected volatility	80.4%	87.3%
Expected life	2.4 years	2.3 years
Risk free rate	0.16%	0.44%
Fair value at date of grant	£1.25	£1.32
Discount for lack of marketability	40%	40%

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:

	2017		**2016**	
	Number of options	**WAEP £**	**Number of options**	**WAEP £**
Outstanding at 1 January	**1,261,314**	**2.04**	1,342,837	2.02
Granted	**1,423,168**	**2.25**	70,000	2.25
Exercised	**-**	**-**	(16,525)	1.90
Lapsed	**(177,740)**	**2.10**	(134,998)	1.99
Outstanding at 31 December	**2,506,742**	**2.15**	1,261,314	2.04
Exercisable at the end of the year	**1,369,314**	**2.08**	886,669	2.00

Notes to the Consolidated Financial Statements (continued)

21. 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 2017		
Exercise price		
£1.90	677,712	5
£2.25	1,829,030	9
	2,506,742	
31 December 2016		
Exercise price		
£1.90	753,603	6
£2.25	507,711	9
	1,261,314	

The total expense arising in the year for share-based payment transactions is £929,000 (2016: £319,000).

22. Leasing commitments

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

	Land and Buildings	
	31 December 2017 £'000	31 December 2016 £'000
Leases which expire falling due		
Before 1 year	526	471
Between 2 - 5 years	842	636
	1,368	1,107

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

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

Notes to the Consolidated Financial Statements (continued)

23. 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). During 2017 the Company settled an historical tax liability relating to certain directors being incorrectly treated as not being employees. This tax liability included both employer and employee taxes and the Company settled employee tax liabilities totalling £64,350, paying this on behalf of those directors. This payment is treated as a benefit in kind for tax purposes in the 2016/17 tax year.

Touchstone Innovations Businesses LLP is a significant shareholder in Cell Medica and are considered to be a related party. During 2017 Cell Medica acquired Cell Medica TCR Limited (formerly Catapult Therapy TCR Limited) (see note 12). Touchstone Innovations Businesses LLP owned 10.8% of the share capital of Cell Medica TCR Limited, and Cell Medica acquired this for £86,400. Cell Medica TCR Limited is licensee under a head licence agreement where Imperial Innovations Limited (a company controlled by the same parent company as Touchstone Innovations Businesses LLP) is one of the licensors. During 2017 Cell Medica TCR Limited paid £150,000 to Imperial Innovations Limited under the terms of this licence. A further £30,000 is due in 2018, with other future payments due on the achievement of milestones or as royalties on future sales.

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 in 2016, 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 during 2016 in exchange for his shareholding in Delenex. See note 12 for more details on the acquisition.

24. Commitments

In 2017, as a result of the acquisition of Cell Medica TCR Limited (see note 12), Cell Medica become party to certain agreements linked to the future performance of its products targeting WT1:

- Under the terms of a head licence agreement with UCL Business and Imperial Innovations for the WT1 TCR, the Group may have to make payments to the licensors contingent upon the achievement of future milestones along with royalties on future revenues.
- Under the terms of an assignment and licence agreement with Catapult under which the Group accesses, together with the licence above, the in-process research and development of the WT1 product, the Group may have to make payments to Catapult contingent upon the achievement of future milestones along with royalties on future revenues.

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

Notes to the Consolidated Financial Statements (continued)

24. Commitments (continued)

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 $30 million over three years. As at 31 December 2017 Cell Medica's commitments amounted to $10 million over the remaining life of the agreement.

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.

25. Ultimate Controlling Party

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

26. Subsequent events

There are no subsequent events

Company Statement of Financial Position

As at 31 December

	Note	2017	2016
Assets		**£'000**	**£'000**
Non-current assets			
Investments in subsidiaries	4	21,758	25,900
Property, Plant and equipment	5	279	229
Intangible assets	6	27,402	27,402
Other receivables	7	450	900
		49,889	**54,431**
Current assets			
Current tax receivable		4,478	998
Trade and other receivables	7	2,215	1,083
Cash and cash equivalent		27,742	6,205
		34,435	**8,286**
Total assets		**84,324**	**62,717**
Liabilities			
Current liabilities			
Trade and other payables	8	(3,068)	(2,741)
Non-current liabilities			
Other payables	8	(27,562)	(16,837)
Total liabilities		**(30,630)**	**(19,578)**
Net assets		**53,694**	**43,139**
Equity			
Share capital		2,023	1,393
Share premium		124,033	79,770
Accumulated deficit		(74,371)	(39,104)
Share-based payment reserve		2,009	1,080
Total equity		**53,694**	**43,139**

For the year ended 31 December 2017 the company recorded a loss of £35,267,000 (2016: £19,726,000).

The financial statements of the Company on pages 49 to 56 were authorised for issue by the Board of Directors on 28 March 2018 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 2016		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**
Loss for the year		-	-	(35,267)	-	(35,267)
Total comprehensive loss for the year		**-**	**-**	**(35,267)**	**-**	**(35,267)**
Issue of ordinary share capital						
Issue of preference share capital		630	44,263	-	-	44,893
Share-based payments		-	-	-	929	929
Balance at 31 December 2017		**2,023**	**124,033**	**(74,371)**	**2,009**	**53,694**

Notes to the Company Financial Statements (continued)

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

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 £35,267,000 (2016: £19,726,000).

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 Consolidated Financial Statements except Goodwill arising from business combinations which is regarded as having an indefinite useful economic life and in accordance with FRS101, is not amortised but is subject to annual tests for impairment. This represents a departure, for the purpose of giving a true and fair view, from the requirements of schedule 4:21 of the Companies Act 2006, which requires goodwill to be amortised.

Notes to the Company Financial Statements (continued)

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 £27.7 million at 31 December 2017 and the availability of future financing from the Series C funding of £60 million (of which £45 million was received in 2017 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 this information, the Directors consider that the entity would have sufficient funding to continue operating for the next twelve months even in the absence of any future funding and consider it appropriate to adopt the going concern basis of accounting in preparing the Group's financial statements.

2. Employee Benefit Expense

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

	2017	2016
	No.	No.
Research and development	10	14
General and administration	22	15
Average number of employees	**32**	**29**

Their aggregate remuneration comprised:	2017	2016
	£'000	£'000
Wages and salaries	2,918	2,439
Social security costs	341	379
Other pension costs	154	147
Share-based payments expense	644	234
	4,057	**3,199**

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.

Notes to the Company Financial Statements (continued)

2. Employee Benefit Expense (continued)

Directors' emoluments

Directors' 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 Company's auditors, PricewaterhouseCoopers LLP.

	2017 £'000	2016 £'000
Audit services:		
Fees payable to the Company's auditors and its associates for the audit of the Company accounts	62	82

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.

4. Investments in subsidiaries

In accordance with section 409 of the Companies Act 2006, a listing of all entities invested in by the Group is provided in the notes to the consolidated financial statements.

	31 December 2017 £'000	31 December 2016 £'000
Cost		
At 1 January	25,900	12,671
Additions	1086	13,229
Impairments	(5,228)	-
At 31 December	**21,758**	**25,900**

The additions in 2017 relate to the acquisition of Cell Medica TCR Limited and additional investments in the Company's subsidiary entities. The additions in 2016 relate to the acquisition of Delenex and additional investments in the Company's subsidiary entities.

In 2017 an impairment was made against the investment in the subsidiary in Germany.

Notes to the Company Financial Statements (continued)

5. Property, plant and Equipment

	Laboratory equipment	Computer and office equipment	Furniture and Fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2016	199	81	59	339
Additions	68	33	127	228
Disposals	-	-	(1)	(1)
At 31 December 2016	267	114	185	566
Additions	149	4	0	153
Disposals	-	-	(3)	(3)
At 31 December 2017	416	118	182	716
Accumulated depreciation				
At 1 January 2016	186	40	45	271
Charge for year	13	27	26	66
Disposals	-	-	-	-
At 31 December 2016	199	67	71	337
Charge for year	42	28	30	100
Disposals	-	-	-	-
At 31 December 2017	241	95	101	437
Net Book Value				
At 31 December 2017	**175**	**23**	**81**	**279**
At 31 December 2016	68	47	114	229

6. Intangible assets

	Goodwill	In-process research and development	Total
	£'000	£'000	£'000
Cost			
At 1 January 2016	-	-	-
Business combination - Baylor College of Medicine	2,421	24,981	27,402
At 31 December 2016 and 31 December 2017	**2,421**	**24,981**	**27,402**
Net Book Value			
At 31 December 2016 and 31 December 2017	**2,421**	**24,981**	**27,402**

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

Notes to the Company Financial Statements (continued)

7. Trade and other receivables

	31 December 2017 £'000	31 December 2016 £'000
Current trade and other receivables		
Amounts due from Group undertakings	1,219	97
Other receivables	225	316
VAT receivable	125	120
Prepayments	646	550
	2,215	**1,083**
Non-Current trade and other receivables		
Prepayments	450	900
	450	**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 2017 £'000	31 December 2016 £'000
Current trade and other payables		
Trade Payables	87	598
Amounts payable to group undertakings	2,000	-
Other payables	-	63
Social security and other taxes	101	164
Accruals	880	1,916
	3,068	**2,741**
Non-Current trade and other payables		
Other payables	27,562	16,837
	27,562	**16,837**

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 2017 £'000	31 December 2016 £'000
Baylor price protection mechanism	7,300	8,382
Baylor contingent consideration	19,300	8,455
	26,600	**16,837**

Further information on the Financial Instruments of the Company can be found in Note 15 to the Group Accounts. The Company also recognises an other financial liability held at amortised cost valued at £962,000 (2016: £nil) which is expected to mature between 2 and 10 years.

Notes to the Company Financial Statements (continued)

10. Leasing commitments

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

	Land and Buildings	
	31 December 2017 £'000	31 December 2016 £'000
Falling due:		
Before 1 year	168	58
Between 1 - 5 years	210	-
	378	**58**

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

Location	Type of space
London – Canal Side Studios	Office

11. Related party transactions

Further information on the related party transactions of the Company can be found in Note 9 and Note 23 to the Group Accounts.

12. Ultimate Controlling Party

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

13. Subsequent events

There are no subsequent events.