PHYSIOMICS

rational therapeutics

Physiomics Plc

Annual Report and Financial Statements

For the Year Ended

30 June 2017

Company Registration No. 4225086

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Officers and Professional Advisors

DIRECTORS

Dr P B Harper	Chairman
Dr J S Millen	Chief Executive Officer
Dr C D Chassagnole	Chief Operating Officer

SECRETARY

Strategic Finance Director Limited

REGISTERED OFFICE

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OX4 4GA

AUDITOR

Shipleys LLP
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WC2H 7DQ
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REGISTRAR

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Beckenham
Kent

BANKER

National Westminster Bank Plc
Norwich Gentleman's Walk
Norwich
Norfolk
NR2 1NA

NOMINATED ADVISOR

WH Ireland Limited
24 Martin Lane
London
EC4R 0DR

SOLICITOR

Taylor Vinters LLP
Merlin Place,
Milton Road,
Cambridge
CB4 0DP

BROKER

Hybridan LLP
20 Ironmonger Lane
London
EC2V 8EP

Physiomics Plc is a limited liability company incorporated in England & Wales and domiciled in the United Kingdom.

Chairman's Statement

Summary of Results in the year ended 30 June 2017

- Total income (revenue and grant income) decreased 9% to £270,465 (2016: £297,120)
- The operating loss before exceptional costs increased 20% to £489,190 (2016: £408,614)
- The loss for the year attributable to equity shareholders increased 6% to £400,526 (2016: £378,697)
- On 30 June 2017, the surplus of shareholders' funds was £328,254 (2016: £204,153)

This year, Physiomics focused on extending and initiating new client projects utilizing its Virtual Tumour Clinical technology and in addition invested in an Innovate UK funded feasibility study in the area of personalised medicine that may provide a meaningful second arm to the Company's business going forwards. Second half revenues and profit are slightly behind our expectations mainly as a result of the timing of a major client deal that is currently in term sheet discussions (see below) and spend on the personalised medicine project. The Company's cash position will remain constrained pending the finalisation of a deal with a major client that was the subject of a company update on 2nd October, however the Directors are keeping this under regular review and have implemented active cost control measures.

In summary the Company has:

- Completed the placing of 2,220,000,000 new ordinary shares of 0.004p each at a price of 0.025p per share to raise a total of £555,000 gross
- Received payments from Sareum for modelling carried out in 2010 to support the identification of an optimal combination regime of a Chk1 inhibitor and a DNA-damaging agent following the licensing of a compound in this family to ProNAi Therapeutics (now Sierra Oncology)
- Announced that it remains engaged with Merck Serono on a project (first announced on 3rd March 2015) using Physiomics' Virtual Tumour Clinical technology
- Confirmed the award of a substantial Innovate UK Grant in the field of personalised medicine. The objective of the project is to create a prototype decision support system to improve cancer care by helping medical professionals make treatment decisions based on patient specific data
- Announced the signing of two new contracts with a global pharma company for Virtual Tumour pre-clinical predictions relating to a new oncology target, marking the sixth year of collaboration with this company
- Announced that it was in term sheet discussions with a major client on a deal that would, if completed, secure a significant volume of work for the Company over a multi-year period

Dr Paul Harper

Non-Executive Chairman

Chairman and Chief Executive Officer's Statement

Introduction

The Company has consolidated its position during the first year of Dr Jim Millen's tenure as CEO and invested in talent development, business development, extending the relationship with a major client and the diversification into the personalised medicine space.

The Company has had significant success in maintaining and extending its relationship with a major pharma client and established or re-established contact with more than fifty potential clients (in some cases past clients) over the course of the year. The Directors believe that leveraging the Company's capabilities and technology into the related discipline of personalised medicine will, if successful, create significant shareholder value.

The key areas of focus for the Company are outlined in this statement and explored further in the Strategic Report.

Modelling and simulation utilising Virtual Tumour Clinical

The Company's main commercial revenue driver continues to be the Virtual Tumour ("VT") predictive software and its development to allow predictions in the clinical space. This will remain the focus for commercial pharmaceutical and biotech clients although other services continue to be sold opportunistically. In particular, the Company has invested significant effort to deepen its relationship with a major client and, as previously announced, is in an active term sheet discussion on a deal that would, if successful, deliver substantial revenues over a multi-year period.

Exploration of collaborations with other service providers

Although the Directors believe the Company has a unique offering, it clearly has fewer opportunities to develop new business than broader based companies (e.g. contract research organisations) which offer services across a spectrum of R&D activity. On the other hand, we do not believe these companies have our capability in the oncology predictive modelling space. As a result, the Company has explored the potential for collaboration with other such service providers and will continue to do so in its next financial year.

Personalised medicine

The personalised medicine initiative is aimed at improving the successful treatment of cancer patients, turning dosing and management from being an art form to being a science. Following the Company's early success in winning a competitive Innovate UK grant in this space and encouraging results from its feasibility project (due to complete in January 2018), the Company has identified other non-dilutive funding opportunities in this space and intends to pursue these where appropriate. There appears to be a significant level of investor and government interest in developing technologies in this area.

Dr Jim Millen, Chief Executive Officer

Dr Paul Harper, Non-Executive Chairman

Strategic Report

Our strategy

Commercial Approach

Physiomics supports the development of client drugs primarily on a fee for service basis but is also open to risk sharing approaches. The Company's main revenue drivers are the Virtual Tumour Pre-Clinical and (increasingly) Virtual Tumour Clinical models. However, we also offer modelling services in support of other stages and activities of drug discovery and development (for example, the prediction of drug cardiotoxicity) as well as bespoke modelling.

Modelling and simulation using Virtual Tumour Clinical

The Company has invested significantly in deepening its relationship with an existing major client this financial year and a potential deal that was originally envisaged would close this financial year is now in term sheet discussions with the objective of closing in calendar 2017. The Company believes that such a deal, if concluded, would act as a material validation of its technology and support business development efforts with other clients and potential clients.

Over the course of this calendar year to date the Company has been in contact with 58 potential clients (biotech and pharma companies in the oncology space). It has achieved this through a number of marketing channels as follows:

- Attendance at three major partnering conferences: Biotech Showcase (San Francisco, January), BioTrinity (London, May), PAGE (Budapest, June)
- Marketing campaign utilising database of historical client contacts in Salesforce™
- Leverage of senior management contacts via email, LinkedIn and other social media platforms
- Word of mouth and passive approaches via website or networking locally within the Oxford and broader UK lifescience hub

The Company has made management presentations to many of these potential clients, and aims to sign a contract with at least one within the next six months.

Within the important but challenging immune-oncology sub-segment of the oncology space, the Company has had historical success in making pre-clinical predictions, having developed an extension module of Virtual Tumour specifically for this purpose. Over the course of this year, a number of potential clients have expressed an interest in exploring this further, with a view to testing Virtual Tumour's ability to make predictions in the clinical space. These discussions are ongoing and further progress will be reported when made.

Exploration of collaborations with other service providers

In addition to the direct approaches to clients outlined above, the Company has engaged in discussions with six other larger service provider companies with whom there are judged to be synergies, with a view to business collaborations. These potential partners all provide services of various kinds to biotech and pharmaceutical companies (including those focused on oncology) and could benefit from the ability to offer their clients access to the Company's Virtual Tumour technology. A number of these discussions are ongoing and could, if successful, reach a conclusion in the next six months.

Strategic Report - continued

Personalised Medicine

As set out in our 2016 Annual Report, the Company sees a significant opportunity in the development of an offering in the personalised medicine space. Many cancer medicines are used in combinations that have not been formally tested in trials but rather have been developed over the years through the practice of doctors expert in their field. Also, there are many forms of cancer and these can have different responses to particular regimens of treatment. The effect of cancer medicines on individual patients can also vary significantly and be different from the effect on the patients who were treated in the clinical trial which led to the drug's approval. There is a significant unmet need for doctors to have more information on the effect of anti-cancer regimes on the patients they are treating to guide the selection and delivery of the best treatment possible.

We announced in January 2017 that the Company had been awarded a substantial Innovate UK Biomedical Catalyst Grant in this field. The objective of this 12 month project was to develop a prototype decision support system ("DSS") to improve cancer care by helping medical professionals make informed treatment decisions based on patient specific data. Although potentially applicable to multiple cancer types, the prototype DSS is being developed using a dataset from patients with oesophageal cancer. It is the 13th most common cancer in the UK and the 6th in terms of mortality, due to late diagnosis and limited response to treatment (which often involves a combination of chemotherapy and surgery). This indication was selected because we were fortunate to be able to engage with a group of collaborators who had treated large numbers of patients with oesophageal cancer.

Our collaborators on the project are Prof Mark Middleton (one of the country's leading cancer specialists), Oxford Universities NHS Foundation Trust and the Oxford Academic Health Sciences Network (whose role includes supporting the commercialisation of tools such as the DSS with the UK National Health Service). The project has made excellent progress and is on schedule, with positive feedback received from our collaborators to date.

Examples of the potential applications of the DSS tool that are currently being explored with focus groups of medical professionals include use of the tool:

- during discussions between doctors and patients about the likely outcomes of treatment
- during chemo to monitor tumour shrinkage and adjust duration or dose of treatment ("personalised dosing")
- by the doctor after chemotherapy to discuss with patient whether or not to proceed to surgery

Developing a commercialisable tool for any of these uses will require further work once the prototype has been completed and to this end the Company has identified a number of substantial, non-dilutive funding opportunities from government grants that it could apply for over the course of the next six months.

Strategic Report - continued

Business review

The Company is principally engaged in providing services to pharmaceutical companies in the areas of outsourced systems and computational biology.

- Total income (revenue and grant income) decreased 9% to £270,465 (2016: £297,120)
- The operating loss before exceptional costs increased 20% to £489,190 (2016: £408,614)
- The loss for the year attributable to equity shareholders increased 6% to £400,526 (2016: £378,697)
- On 30 June 2017, the surplus of shareholders' funds was £328,254 (2016: £204,153)

Strategic and financial performance indicators

The Company is focused on the creation of long-term value for its shareholders.

The Directors consider that the key performance indicators are those that communicate the financial performance and strength of the Company as a whole, these being revenue, profitability and shareholders' funds.

The Company faces many risks on the way to building shareholder value. The process of winning major contracts can be protracted and the Company operates in a competitive environment. This means the Company often faces significant uncertainties in its cash flow.

Addressing the risks

The board addresses the financial uncertainties by monitoring of actual performance against internal projections and responding to significant variances. Personnel resources are a combination of full-time and contractors, many of the latter being ex-employees who are familiar with the models and the clients. We can draw on this flexible resource as necessary.

Interest rate risk

The Company finances its operations by cash and short term deposits.

In the current low interest rate environment, interest rate risk management in respect of the Company's current cash balances is not a primary focus. Instead, the Company seeks to ensure cash availability for working capital purposes and to reduce credit risk arising from cash and short term deposits with banks and other financial institutions by holding deposits with an institution with a medium grade credit rating or better.

Other creditors, accruals and deferred income values do not bear interest.

Interest rate profile

The Company had no bank borrowings at the 30 June 2017.

Liquidity risk

The Company seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Strategic Report - continued

Fair values

There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

Regulatory risk

There is a risk that the business model is impacted by future changes in regulations in the medical and pharmaceutical industry. Major agencies such as the FDA are actively promoting the use of system modelling and issue advisory papers which set out their thinking. The Company regularly reviews activity in this area through proactive discussions with key industry officials, professional advisors and regulatory bodies where appropriate. The Company's customers are predominately pharmaceutical companies who require outsourced systems and computational biology services.

Skills risk

The success and future growth of the Company is in part dependent on the continued performance and delivery of certain Directors, managers and key staff and contractors.

The Company seeks to recruit, develop, and manage talent in order to meet the continuing demand for innovative and leading edge developments in specialised modelling solutions within the pharmaceutical industry. The ability of the Company to attract and retain highly skilled employees requires the Company to offer and maintain competitive employment packages and personal development opportunities. The Company therefore invests in the recruitment of highly skilled individuals and operates a proactive system of training and performance management across the business. The Company has built a network of contracted specialists who can contribute a unique combination of skills as required.

Systems & infrastructure

The Company is dependent on its IT technical infrastructure and systems for the management of its core operations and research and development programmes. Continuity of access to data and integrity of data is maintained through the implementation of a system of data storage, backup and monitoring of key coding and modelling data.

By order of the board

Dr Paul Harper

Chairman

Directors' Report

The Directors submit their report and the audited financial statements of Physiomics Plc for the year ended 30 June 2017.

Results

There was a loss for the year after taxation amounting to £400,526 (2016 loss: £378,697). In view of accumulated losses, and given the stage of the Company's development, the Directors are unable to recommend the payment of a dividend.

Directors

The directors who served during the year were:

Dr P B Harper

Dr J S Millen

Dr C D Chassagnole

Dr M P Chadwick (resigned 25 October 2016)

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the financial performance and cash flows of the Company for that year.

The financial statements are required by law, and IFRS as adopted by the EU, to give a true and fair view of the state of affairs of the Company.

In preparing the Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;
b. make judgements and estimates that are reasonable and prudent;
c. state whether in preparation of the financial statements the Company has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors are also responsible for the maintenance and integrity of the Physiomics Plc website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Directors’ Report - continued

Substantial shareholdings

The Company has been informed that on 2nd October 2017 the following shareholders held substantial holdings in the issued ordinary shares of the Company.

	Number of Ordinary shares	Holding %
BARCLAYS DIRECT INVESTING NOMINEES	13.4%	7,625,176
TD DIRECT INVESTING NOMINEES	12.7%	7,255,837
HSDL NOMINEES LIMITED	11.5%	6,561,982
W B NOMINEES LIMITED	9.3%	5,281,700
HARGREAVES LANSDOWN (NOMINEES)	8.2%	4,651,691
SVS (NOMINEES) LIMITED	5.5%	3,137,825
PEEL HUNT HOLDINGS LIMITED	5.4%	3,051,846
NOMURA CUSTODY NOMINEES LIMITED	4.6%	2,600,000
SHARE NOMINEES LTD	3.3%	1,880,461

No other person has reported an interest of more than 3% in the ordinary shares.

On 2nd October 2017, Dr Paul Harper held 525,707 ordinary shares, Dr Mark Chadwick (resigned 25 October 2016) held 39,701 ordinary shares, Dr Jim Millen held 200,000 ordinary shares and Dr Christophe Chassagnole held 151,897 ordinary shares. The holding percentages were 0.92%, 0.07%, 0.35% and 0.27% respectively.

Directors’ remuneration

Details of Directors’ remuneration in the year ended 30 June 2017 is set out below:

	Emoluments	**Benefits**	**Pension Contributions**	**Total 2017**	**Total 2016**
	£	£	£	£	£
Dr P B Harper	35,000	-	-	35,000	35,000
Dr J S Millen	130,000	1,277	-	131,277	26,871
Dr C D Chassagnole	62,114	687	3,192	65,993	64,120
Dr M P Chadwick	3,125	122	-	3,247	96,881
Total	**230,239**	**2,086**	**3,192**	**235,517**	**222,872**

Directors' Report - continued

Post balance sheet events

No material post balance sheet events occurred after the end of the period.

Statement as to disclosure of information to auditors

The Directors in office on 13 October 2017 have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Corporate governance

The board of Directors is accountable to the Company's shareholders for good corporate governance. The Company takes corporate governance seriously and the statement below sets out how the board apply the principles of good corporate governance.

Directors

The Company supports the concept of an effective board leading and controlling the Company. The board is responsible for formulating and approving the strategy of the business and meets at least six times per year. Various matters are specifically reserved for board decision, ensuring that the board maintains full control over strategic, financial, organisational, risk and compliance issues. Management supply the board with appropriate and timely information, while the Directors are encouraged to seek any further information they consider necessary.

The board comprises two executive Directors, who fulfil the main operational roles in the Company, and a non-executive Chairman. From 25 April 2016 until 25 October 2016, Dr Mark Chadwick also served as a non-executive Director following his resignation as Chief Executive. Due to the size of the Company, the board does not consider the appointment of a senior independent non-executive director to be necessary. A full list of the Directors is shown above.

Accountability

The board endeavours to present a balanced and comprehensible assessment of the Company's situation and prospects in all of its published statements, including interim reports, price-sensitive announcements, reports to regulators and information supplied to comply with statutory requirements.

The Audit Committee consists of the COO, the Company Secretary and is chaired by the Company Chairman. The Committee meets at least twice per year to consider matters relating to the Company's financial position and reporting. The Committee reviews the independence and objectivity of the external auditors, Shipleys LLP, as well as the amount of non-audit work undertaken by them, to satisfy itself that this will not compromise their independence. Details of the fees paid to Shipleys LLP during the current accounting period are given in note 3 to the accounts.

Directors' Report - continued

Remuneration Committee

The Remuneration Committee has been established primarily to determine the remuneration, terms and conditions of employment of the executive Directors of the Company. The Committee comprises the CEO, the Company Secretary and is chaired by the Company Chairman. It meets at least once a year. The primary concern of the Committee is to establish a system of rewards and incentives that aim to align the interests of the executive Directors with the long-term interests of the shareholders. These are based on the achievement of both scientific and commercial milestones while taking into account the financial position of the Company at this stage in its development. Any remuneration issues concerning non-executive Directors are resolved by this Committee and no Director participates in decisions that concern his own remuneration.

Going concern, responsibilities and disclosure

After making appropriate enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Internal controls and risk management

The board is responsible for the Company's system of internal control and risk management and for reviewing its effectiveness. The Directors have a reasonable expectation that the Company will safeguard the Company's assets. The risk management process and internal control systems are designed to manage rather than eliminate the risk of failing to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss. The key features of the Company's system of internal control are as follows:

- a clearly defined organisational structure and set of objectives.
- the executive Directors play a significant role in the day to day operation of the business.
- detailed monthly management accounts are produced for the board to review and take appropriate action.

Annual General Meeting

The Company values the views of its shareholders and recognises their interest in the Company's strategy, performance and the ability of the board. The AGM provides an opportunity for two-way communication and all shareholders are encouraged to attend and participate. Separate resolutions will be put to shareholders at the AGM, giving them the opportunity to discuss matters of interest. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after each has been dealt with on a show of hands.

The Company uses its website www.physiomics-plc.com as another means of providing information to shareholders and other interested parties. The website displays the annual report and accounts, interim results and other relevant announcements.

The Annual General Meeting of the Company will be held at the offices of Physiomics plc, The Magdalen Centre, Oxford Science Park, Oxford OX4 4GA at 10.00 am on Wednesday 13 December 2017.

By order of the board

Dr Paul Harper, Chairman

Independent Auditors' Report to the Members of Physiomics Plc

Opinion

We have audited the financial statements of Physiomics PLC (the "company") for the year ended 30th June 2017 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 30th June 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Independent Auditors' Report to the Members of Physiomics Plc (cont)

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the notes to the financial statements page 24, concerning the Company's ability to continue as a going concern. In this note the Directors set out a number of sources of revenue which form the basis of their revenue projections for the next twelve months including a major client deal currently under discussion, the conversion of at least one of a number of currently active discussions with potential new clients into commercial contracts, the award of a new non-dilutive grant and (only if required) a placing to cover working capital needs. However, there is uncertainty relating to each of these and should several fail to happen there would be doubt about the Company's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	How the Scope of our audit responded to the risk
Management override of controls Journals can be posted that significantly alter the Financial Statements.	We examined journals posted around the year end, specifically focusing on areas which are more easily manipulated such as accruals, prepayments, investment valuation and the bank reconciliation.
Going Concern There is a risk that the company is not a going concern.	We made enquires with the Directors regarding how they have assessed going concern. We have reviewed projections and disclosed accordingly.
Fraud in Revenue Recognition There is a risk that revenue is materially understated due to fraud.	Income was tested on a sample basis from contracts. No evidence of fraud or other understatement was identified.
Accounting Estimates Potential risk of inappropriate accounting estimates giving rise to misstatement in the accounts.	All areas were examined to identify any potential accounting estimates. These estimates were then reviewed and tested for adequacy.
Misstatement of Grant Income There is a risk that grant income has been incorrectly accounted for.	Grant income was tested and cut off agreed as correct. No evidence of misstatement was identified.
Overstatement of Intangible Assets Risk that the asset has no cash generating value.	An impairment review of the asset was undertaken and no evidence of such was identified.
Overstatement of Administrative Expenses There is a risk that the company's administrative expenses are overstated.	A proof in total calculation and substantive testing were both undertaken and no evidence of overstatement was identified.

Independent Auditors' Report to the Members of Physiomics Plc (cont)

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that of materiality makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning and in the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be £13,900. We agreed with the Audit Committee that we would report to them all audit differences in excess of 10% of materiality, as well as differences below that which would, in our view, warrant reporting on a qualitative basis. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

An overview of the scope of our audit

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditors’ Report to the Members of Physiomics Plc (cont)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors’ report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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

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

Joseph Kinton (Senior Statutory Auditor)
For and on behalf of Shipleys LLP,
Chartered Accountants and Statutory Auditor
10 Orange Street
Haymarket
London
WC2H 7DQ

Date:

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Income Statement for the year ended 30 June 2017

	Notes	Year ended 30-Jun-17 £	Year ended 30-Jun-16 £
Revenue	1, 2	219,647	297,120
Other operating income	4	50,818	-
Total income		**270,465**	**297,120**
Net operating expenses		(759,655)	(705,734)
Operating exceptional costs	3	(41,362)	(22,947)
Operating loss	3	**(530,552)**	**(431,561)**
Presented as:			
Loss before exceptional costs	3	(489,190)	(408,614)
Operating exceptional costs	3	(41,362)	(22,947)
Operating loss		**(530,552)**	**(431,561)**
Finance income	5	153	143
Finance costs		-	(8)
Loss before taxation		(530,399)	(431,426)
UK corporation tax	7	129,873	52,729
Loss for the year attributable to equity shareholders		**(400,526)**	**(378,697)**
Loss per share (pence)			
Basic and diluted - restated	8	(0.78p) p	(1.3) p

Statement of Comprehensive Income

	30-Jun-17	30-Jun-16
	£	£
Net loss for the year	(400,526)	(378,697)
Other comprehensive income	-	-
Total comprehensive (expense) for the year	(400,526)	(378,697)
Attributable to:		
Equity shareholders	(400,526)	(378,697)

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Statement of Financial Position as at 30 June 2017

	Notes	Year ended 30-Jun-17 £	Year ended 30-Jun-16 £
Non-current assets			
Intangible assets	10	-	2,381
Property, plant and equipment	11	5,830	1,557
Investments		1	1
		5,831	3,939
Current assets			
Trade and other receivables	12	119,552	107,856
Taxation recoverable		80,040	52,606
Cash and cash equivalents		209,752	138,910
		409,344	299,372
Total assets		415,175	303,311
Current liabilities			
Trade and other payables	12,13	(86,921)	(99,158)
Total liabilities		(86,921)	(99,158)
Net assets		328,254	204,153
Capital and reserves			
Share capital	14	1,121,463	1,032,663
Capital reserves	15	4,912,448	4,476,621
Retained earnings	16	(5,705,657)	(5,305,131)
Equity shareholders' funds		328,254	204,153

The financial statements were approved by the Board of Directors and authorised for issue on 13 October 2017 and are signed on its behalf by:

Dr Paul Harper

Chairman

Statement of Changes in Equity for the year ended 30 June 2017

	Share capital £	Share premium account £	Share-based compensation reserve £	Retained earnings £	Total shareholders' funds £
At 1 July 2015	992,663	4,147,573	111,815	(4,926,434)	325,617
Share issue (net of costs)	40,000	180,000	-	-	220,000
Loss for the year	-	-	-	(378,697)	(378,697)
Share-based compensation	-	-	37,233	-	37,233
At 30 June 2016	1,032,663	4,327,573	149,048	(5,305,131)	204,153
Share issue (net of costs)	88,800	425,965	-	-	514,765
Loss for the year	-	-	-	(400,526)	(400,526)
Share-based compensation	-	-	9,862	-	9,862
At 30 June 2017	1,121,463	4,753,538	158,910	(5,705,657)	328,254

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Cash Flow Statement for the year ended 30 June 2017

	Year ended 30-Jun-17 £	Year ended 30-Jun-16 £
Cash flows from operating activities:		
Operating loss	(530,552)	(431,561)
Amortisation and depreciation	4,910	6,439
Share-based compensation	9,862	37,233
Decrease in receivables	(11,696)	(60,005)
Decrease in payables	(12,237)	45,910
Cash generated from operations	(539,713)	(401,984)
UK corporation tax received	102,439	55,123
Interest paid	-	(8)
Net cash generated from operating activities	(437,274)	(346,869)
Cash flows from investing activities:		
Interest received	153	143
Sale of non-current assets	-	725
Purchase of non-current assets	(6,802)	(1,835)
Net cash received by investing activities	(6,649)	(967)
Cash outflow before financing	(443,923)	(347,836)
Cash flows from financing activities:		
Issue of ordinary share capital (net of expenses)	514,765	220,000
Net cash from financing activities	514,765	220,000
Net increase / (decrease) cash and cash equivalents	70,842	(127,836)
Cash and cash equivalents at beginning of year	138,910	266,746
Cash and cash equivalents at end of year	209,752	138,910

Notes to the Financial Statements

Basis of preparation

The financial statements of Physiomics Plc have been prepared in accordance with applicable law and International Financial Reporting Standards incorporating International Accounting Standards and Interpretations (collectively "IFRS") as endorsed by the European Union.

The financial statements have been prepared on the historical cost basis. The significant accounting policies are set out below.

Accounting policies

Revenue recognition

The revenue shown in the income statement relates to amounts received or receivable from the provision of services associated with outsourced systems and computational biology services to pharmaceutical companies.

Revenue from the provision of the principal activities is recognised by reference to the stage of completion of the transaction at the balance sheet date where the amount of revenue can be measured reliably and sufficient work has been completed with certainty to ensure that the economic benefit will flow to the Company.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

Going concern

The accounts have been prepared on the going concern basis. The Company primarily operates in the relatively defensive pharmaceutical industry which we expect to be less affected by current economic conditions, including the potential consequences of Brexit, compared to other industries.

The Company had £209,752 of cash and cash equivalents as at 30 June 2017 (2016 £138,910).

The board operates an investment policy under which the primary objective is to invest in low-risk cash or cash equivalent investments to safeguard the principal.

The Company's projections, taking into account anticipated revenue streams, show that the Company has sufficient funds to operate for the next twelve months. In coming to this conclusion, the Company assumes but cannot guarantee that in addition to currently contracted revenue streams, it will receive revenue from some combination of a major client deal currently under discussion (as announced on 2nd October 2017), the conversion of at least one of a number of currently active discussions with potential new clients into commercial contracts, the award of a new non-dilutive grant and (only if required) a placing to cover working capital needs. Until one or more of these events happens, the Company's cash position will remain constrained, however the Directors are keeping this under regular review and have implemented cost control measures.

After reviewing the Company's projections, the Directors believe that the Company is adequately placed to

Notes to the Financial Statements - continued

manage its business and financing risks for the next twelve months. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Intangible assets

Intangible assets acquired separately from third parties are recognised as assets and measured at cost.

Following initial recognition, intangible assets are measured at cost or fair value at the date of acquisition less any amortisation and any impairment losses. Amortisation costs are included within the net operating expenses disclosed in the income statement.

Intangible assets are amortised over their useful lives as follows:

	Useful Life	Method
Software	15 years	Straight line

Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis. The Company does not have any intangible assets with indefinite lives.

Property, plant and equipment

All items are initially recorded at cost.

Impairment of assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets that do not individually generate cash flows are assessed as part of the cash generating unit to which they belong. Cash generating units are the lowest levels for which there are cash flows that are largely independent of the cash flows from other assets or groups of assets.

Depreciation

Depreciation is calculated to write off the cost of an asset over its useful economic life as follows:

Leasehold improvements - the remaining life of the lease

Fixtures and computers - three years, straight-line basis

Research and development expenditure

Expenditure on research activity is recognised as an expense in the period in which it is incurred.

Trade and other receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Balances are written off when the probability of recovery is considered to be remote.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Foreign currency

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating result.

Government Grants

Government grants of a revenue nature are credited to the profit and loss account in the same period as the related expenditure.

Share based payments

The Company issues equity settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period. Fair value is measured by use of a Black-Scholes model.

Investments

Participating interests are stated at cost less amounts written off in the Company balance sheet.

Taxation

Tax currently payable is based on the taxable profit for the period which may differ from net profit reported in the income statement.

Deferred taxation is recognised in respect of all temporary differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay further tax, or a right to pay less tax in future. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the gains or losses in tax assessments in period different from those in which they are recognised in the financial statements. Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying temporary differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse.

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Notes to the Financial Statements - continued

Adoption of international accounting standards

No Standards or Interpretations adopted in the year had any material impact on the financial statements of the Company.

The following Standards and Interpretations were issued with an effective date after the date of these financial statements. These have not been applied as they are not yet effective or endorsed.

		Effective for accounting periods starting on or after
IFRS 9	Financial Instruments IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. It includes revised guidance on the classification and measurement of financial instruments.	1 January 2018
IFRS 15	Revenue from contracts with customers IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.	1 January 2018
IFRS 16	Leases IFRS 16 replaces IAS 17 Leases. It eliminates the classification of leases as either operating leases or finance leases. Any leases with more than 12 months' term are to be recognised as a lease asset on the balance sheet and the related future lease obligations as a liability.	1 January 2019

The Directors anticipate that the adoption of these Standards and Interpretations in future period will have no material impact on the Company's financial statements.

1. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Revenue for projects started and completed during the financial year is recognised in full during the year. Revenue from a project which commences in one financial year and is completed in a subsequent financial year is recognised over the life of the project based on the expected period to completion as anticipated at each balance sheet date less what has already been recognised during a previous financial period or periods.

There were no other material accounting estimates or areas of judgements required.

2. REVENUE AND SEGMENTAL REPORTING

The principal activities are the provision of outsourced systems and computational biology services to pharmaceutical companies.

This activity comprises a single segment of operation of a sole UK base and entirely UK based assets. Revenue was derived in the UK and European Union from its principal activity.

3. OPERATING LOSS

	2017	2016
	£	£
Operating loss is stated after charging:		
Research and development - Current year expenditure	211,220	165,516
Depreciation charge for the year - Owned assets	2,529	1,795
Amortisation charge for the year	2,381	4,644
Difference on foreign exchange	38	(118)
Fees paid to the Company's auditor, refer to below	20,250	13,500
Operating exceptional costs, refer to below	41,362	22,947
	=========	=========

Amounts payable for audit and non-audit services	Payable to:		
For the audit of the Company's financial statements	Shipleys LLP	10,000	10,000
Taxation compliance services	Shipleys LLP	2,750	-
Audit-related assurance services	Shipleys LLP	6,000	3,500
Taxation advisory services	Shipleys LLP	1,500	-
		--------------	-------------
		20,250	13,500
		=========	========

Notes to the Financial Statements - continued

3. OPERATING LOSS (CONTINUED)

Operating exceptional costs in both years comprised due diligence and other legal and professional costs in relation to the anticipated acquisition of Biomoti Limited. During the year the Board decided not to proceed with this acquisition.

4. OTHER OPERATING INCOME

	2017	2016
	£	£
Grant income	50,818	-
	==========	==========

5. FINANCE INCOME

	2017	2016
	£	£
Bank interest receivable	153	143
	==========	==========

6. STAFF COSTS

	2017	2016
	£	£
Staff costs, including Directors' remuneration during the year:		
Fees, wages and salaries	342,527	344,095
Social security costs	52,172	32,889
Other pension and insurance benefit costs	8,111	3,030
	----------------	----------------
	402,810	380,014
	==========	==========
Average number of employees including Directors	6	6
	==========	==========

Details of the remuneration of Directors are included in the Directors Report on page 12.

7. TAXATION

(a) Analysis of charge in the year	**2017**	2016
	£	£
Research and Development tax credit: current year	80,040	52,606
Research and Development tax credit: prior year	49,834	123
Total current tax	129,873	52,729

(b) Factors affecting current tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK.

The temporary differences are explained below:	**2017**	2016
	£	£
Loss on ordinary activities before taxation	(530,399)	(431,426)
Tax on loss on ordinary activities at standard corporation tax rate of 19% (2016: 20%)	(100,766)	(86,285)
Research and Development enhancement	(34,941)	(21,880)
Adjustment to prior year Research and Development credit	(31,861)	(123)
Research and development expenditure credit	(5,167)	-
Expenses not deductible for tax purposes	9,839	7,748
(Accelerated)/ deferred capital allowances	(871)	260
Unrelieved tax loss carried forward	33,904	47,551
Total current tax	(129,873)	(52,729)

At 30 June 2017 tax losses of approximately £3,796,626 (2016: £3,636,770) remained available to carry forward against future taxable trading profits. These amounts are in addition to any amounts surrendered for Research and Development tax credits. There is an unrecognised deferred tax asset of £721,359 (2016: £727,354).

Notes to the Financial Statements - continued

8. LOSS PER SHARE

Calculations are based on the losses and number of shares below:

	2017	2016
	£	£
Loss on ordinary activities after tax	(400,527)	(378,697)
	No.	No.
Weighted average no of ordinary shares:		
At 1 July	34,816,579	24,816,579
Effect of Shares issued in the year	16,726,027	5,327,869
Weighted average number of ordinary shares in the year for basic and diluted loss per share	51,542,606	30,144,448
Basic and diluted loss per share	(0.78) p	(1.3) p

The loss attributable to equity holders (holders of ordinary shares) of the Company for the purpose of calculating the fully diluted loss per share is identical to that used for calculating the loss per share. The exercise of share options would have the effect of reducing the loss per share and is therefore anti- dilutive under the terms of IAS 33 'Earnings per Share'.

The loss for the prior year has been restated to reflect the share consolidation on 16 December 2016.

9. FINANCIAL INSTRUMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

	Held for trading	
	2017	2016
	£	£
Current financial assets		
Trade and other receivables	199,592	160,462
Cash and cash equivalents	209,752	138,910
	409,344	299,372
Current financial liabilities		
Trade and other payables	86,921	99,158
	86,921	99,158

10. INTANGIBLE FIXED ASSETS

	Patents, trademarks and software
	£
Cost	
At 1 July 2015	75,646
Additions	-
At 30 June 2016	75,646
Additions	-
At 30 June 2017	75,646
Amortisation	
At 1 July 2015	68,621
Provided in the year	4,644
At 30 June 2016	73,265
Provided in the year	2,381
At 30 June 2017	75,646
Net book value	
30 June 2017	-
30 June 2016	2,381

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Notes to the Financial Statements - continued

11. PROPERTY PLANT AND EQUIPMENT

	Fixtures and computers
	£
Cost	
At 1 July 2015	53,655
Additions	1,835
Disposals	(19,012)
At 30 June 2016	36,478
Additions	6,802
Disposals	-
As at 30 June 2017	43,280
Depreciation	
At 1 July 2015	51,413
Provided in the year	1,795
Disposals	(18,287)
At 30 June 2016	34,921
Provided in the year	2,529
Disposals	-
As at 30 June 2017	37,450
Net book value	
30 June 2017	5,830
30 June 2016	1,557

12. OTHER FINANCIAL ASSETS AND LIABILITIES

	2017	2016
	£	£
Trade and other receivables are as follows:		
Trade receivables	37,296	2,563
Prepayments and accrued income	60,967	74,398
Other receivables	21,289	30,895
	119,552	107,856
Trade and other payables are as follows:		
Amounts payable relating to the purchase of goods and services	23,227	38,581
Other payables	29,883	11,604
Accruals and deferred income	33,811	48,973
	86,921	99,158

13. LOANS

There were no loans with Directors at 30 June 2017 and 30 June 2016.

14. SHARE CAPITAL

The Ordinary share capital of the Company comprises:

	2017	**2017**	2016	2016
Allotted, called up and fully paid:	**Number**	**£**	Number	£
Ordinary shares of 0.004p each as at 1 July	3,481,657,918	139,266	2,481,657,918	992,663
Effect of share split on 14 December 2015 to deferred shares of 0.036p each	-		-	(893,397)
Ordinary shares of 0.004p each			2,481,657,918	99,266
Issue of ordinary share capital of 0.004p each	2,220,000,000	88,800	1,000,000,000	40,000
100:1 share consolidation of ordinary share capital from 0.004p each to 0.4p each	(5,644,641,339)	-	-	-
As at 30 June	57,016,579	228,066	3,481,657,918	139,266

Current year changes to Ordinary share capital

On 21 September 2016 the Company issued 2,220,000,000 ordinary shares of 0.004p at a price of 0.025p per ordinary share for working capital purposes.

On 16 December 2016, the Company consolidated its ordinary shares in a ratio of 100:1. Following this, the issued share capital of the Company reduced from 5,701,657,918 ordinary shares of 0.004p each to 57,016,579 ordinary shares of 0.4p each. The 2,481,657,918 Deferred Shares of 0.036p each remained unchanged.

The ordinary shares carry no right to fixed income.

Notes to the Financial Statements - continued

14. SHARE CAPITAL (CONTINUED)

Prior year changes to Ordinary share capital

On 14 December 2015 the Company split each ordinary share of 0.04p each into one ordinary share of 0.004p each and one deferred share of 0.036p each.

On 18 December 2015 the Company issued 1,000,000,000 ordinary shares of 0.004p at a price of 0.025p per ordinary share for working capital purposes.

The deferred share capital of the Company comprises:

	2017	**2017**	2016	2016
Allotted, called up and fully paid:	**Number**	**£**	Number	£
Deferred shares of 0.036p each as at 1 July	2,481,657,918	893,397	-	-
Effect of share split on 14 December 2015 from ordinary shares	-	-	2,481,657,919	893,397
As at 30 June	2,481,657,918	893,397	2,481,657,918	893,397

The deferred shares have no voting rights and have no rights to receive dividends or other income.

15. CAPITAL RESERVES

	Share premium account	Share-based compensation reserve	Total
	£	£	£
Balance at 1 July 2015	4,147,573	111,815	4,259,388
Issue of share capital	210,000	-	210,000
Share issue costs	(30,000)	-	(30,000)
Share-based compensation	-	37,233	37,233
Balance at 30 June 2016	4,327,573	149,048	4,476,621
Issue of share capital	466,200	-	425,966
Share issue costs	(40,234)	-	-
Share-based compensation	-	9,862	9,862
Balance at 30 June 2017	4,753,539	158,910	4,912,449

The share premium account consists of proceeds from the issue of shares in excess of their par value (which is included in the share capital account).

The share-based compensation reserve represents the credit arising on the charge for share options calculated in accordance with IFRS 2.

16. RETAINED EARNINGS

	£
Balance at 1 July 2015	(4,926,434)
Loss for the year	(378,697)
Balance at 30 June 2016	(5,305,131)
Loss for the year	(400,527)
Balance at 30 June 2017	(5,705,658)

Retained earnings includes an amount of £237,889 (2016: £237,889) in relation to the Equity Swap Agreement in 2014 which under the Companies Act is not distributable.

Notes to the Financial Statements - continued

17. CAPITAL COMMITMENTS

At 30 June 2017 and 30 June 2016 the Company had no capital commitments.

18. SHARE BASED PAYMENT TRANSACTIONS

The Company operates two share option schemes: (1) under the Enterprise Management Initiative Scheme ("EMI") and (2) an unapproved share option scheme. Both are equity settled. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of the options is 10 years.

Holder	Outstanding at beginning of period	Outstanding at beginning of period adjusted*	Granted during period	Forfeited during period	Outstanding at end of period	Exercisable at end of period	Exercise price (p)	Date of grant	Date of expiry
Dr. C Chassagnole1	7,499,453	74,994	-	-	74,994	74,994	38.30	07 Sep 2007	07 Sep 2017
Dr. C Chassagnole[1]	5,624,590	56,245	-	-	56,245	56,245	15.00	18 Dec 2008	18 Dec 2018
Dr. C Chassagnole[1]	11,856,584	118,565	-	-	118,565	118,565	40.00	28 Feb 2010	28 Feb 2020
Dr. C Chassagnole[1]	3,233,125	32,331	-	-	32,331	16,166	34.00	09 Nov 2011	09 Nov 2021
Dr. C Chassagnole[1]	12,938,121	129,381	-	-	129,381	129,381	13.20	11 Feb 2013	11 Feb 2023
Dr. C Chassagnole[1]	32,261,553	322,615	-	-	322,615	322,615	6.20	24 Mar 2015	24 Mar 2025
Dr. C Chassagnole[1]	64,523,106	645,231		-	645,231	645,231	3.50	21 Dec 2015	21 Dec 2025
Dr. C Chassagnole[1]	-		879,521	-	879,521	439,761	2.50	28 Feb 2017	27 Feb 2027
Dr. J. Millen[1]	-		1,938,564	-	1,938,564	969,282	2.50	28 Feb 2017	27 Feb 2027
Dr. M. Chadwick[1]	19,984,500	199,845	-	199,845	-	-	27.00	06 Dec 2010	06 Dec 2020
Dr. M. Chadwick[1]	3,233,127	32,331	-	32,331	-	-	34.00	09 Nov 2011	09 Nov 2021
Dr. M. Chadwick[1]	4,996,125	49,961	-	49,961	-	-	29.30	19 Dec 2011	19 Dec 2021
Dr. M. Chadwick[1]	12,938,121	129,381	-	129,381	-	-	13.20	11 Feb 2013	11 Feb 2023
Dr. M. Chadwick[1]	32,261,553	322,615	-	322,615	-	-	6.20	24 Mar 2015	24 Mar 2025
Dr. M. Chadwick[1]	64,523,106	645,231	-	645,231	-	-	3.50	21 Dec 2015	21 Dec 2025
Dr. P. Harper[2]	2,327,710	23,277	-	-	23,277	23,277	15.00	18 Dec 2008	18 Dec 2018
Dr. P. Harper[2]	7,664,541	76,645	-	-	76,645	76,645	40.00	28 Feb 2010	28 Feb 2020
Dr. P. Harper[2]	1,293,250	12,932	-	-	12,932	6,466	34.00	09 Nov 2011	09 Nov 2021
Dr. P. Harper[2]	5,175,248	51,752	-	-	51,752	51,752	13.20	11 Feb 2013	11 Feb 2023
Dr. P. Harper[2]	12,904,621	129,046	-	-	129,046	129,046	6.20	24 Mar 2015	24 Mar 2025
Dr. P. Harper[2]	25,809,242	258,092	-	-	258,092	258,092	3.50	21 Dec 2015	21 Dec 2025
Other staff[1]	3,490,000	34,900	-	-	34.900	34,900	38.30	07 Sep 2007	07 Sep 2017
Other staff[1]	3,448,824	34,488	-	-	34,488	34,488	15.00	18 Dec 2008	18 Dec 2018
Other staff[1]	10,547,614	105,476	-	-	105,476	105,476	40.00	28 Feb 2010	28 Feb 2020
Other staff[1]	10,727,314	107,272	-	-	107,272	53,636	34.00	09 Nov 2011	09 Nov 2021
Other staff[1]	14,231,932	142,318	-	-	142,318	142,318	13.20	11 Feb 2013	11 Feb 2023
Other staff[1]	34,991,376	349,912	-	-	349,912	349,912	6.20	24 Mar 2015	24 Mar 2025
Other staff[1]	69.982,752	699.826	-	-	699.826	699,826	3.50	21 Dec 2015	21 Dec 2025
Other staff[1]			500,229		500,229	250,115	2.50	28 Feb 2017	27 Feb 2027
Total	478,467,488	4,784,662	3,318,314	1,379,364	6,723,612	4,988,188			

*Adjusted for 100:1 share consolidation effective 19 Dec 2016

No options were exercised during the year, however 1,379,364 options attributable to Mark Chadwick expired on the 25th January 2017, following his resignation on the 25th October 2016. Some of the options granted are subject to performance criteria relating to either share price performance or the achievement of certain corporate milestones.

Options have been valued at grant date using the Black-Scholes option pricing model. The options granted during the current year vest three months after grant (prior year vesting period was six months) with no additional performance criteria attached. There were no market vesting conditions within the terms of the grant of the share options.

The expected volatility is based on historical volatility of the Company over 2.5 years. The expected life of options is now based on the share option exercise history with the company. The risk free rate of return is derived from UK treasury yields at 2.5 years.

18. SHARE BASED PAYMENT TRANSACTIONS (CONTINUED)

Inputs to Black-Scholes share option pricing model	**2017**	2016
Grant date	19 December 2016	21 December 2015
Number of shares under option	3,318,312	224,838,206
Share price at date of grant	1.9 pence	0.035 pence
Option exercise price	2.5 pence	0.035 pence
Expected life of options	2.5 years	2.5 years
Expected volatility	40.08%	40.08%
Dividend yield: no dividends assumed	0%	0%
Risk-free rate	0.15% p.a.	0.72% p.a.

Outputs from Black-Scholes share option pricing model	**2017**	2016
Fair value per share under option	0.2972 pence	0.0089 pence
Total expected charge over the vesting period	£9,862	£20,011
Analysis of share based payment charge for year	2017	2016
Share options granted in current year	9,862	£20,011
Share options granted in prior year	-	£17,233
Total share-based payments charge in the year	£9,862	£37,233

Note that the 2016 valuation calculation has not been restated to reflect the share consolidation on 16 December 2016.

Notes to the Financial Statements - continued

19. FINANCIAL INSTRUMENTS

The Company's financial instruments comprise cash and short-term deposits. The Company has various other financial instruments, such as trade debtors and creditors that arise directly from its operations, which have been excluded from the disclosures other than the currency disclosures.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing these are regularly reviewed and agreed by the board.

It is and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

Interest rate risk

The Company finances its operations by cash and short-term deposits. The Company's policy on interest rate management is agreed at board level and is reviewed on an ongoing basis. Other creditors, accruals and deferred income values do not bear interest.

Capital management

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 14 to 16.

The board's policy is to maintain an appropriate capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company has a record of managing the timing and extent of discretionary expenditure in the business. In order to maintain or adjust the capital structure the Company may issue new shares.

Interest rate profile

The Company had no bank borrowings at the 30 June 2017.

Liquidity risk

The Company seeks to manage financial risk by ensuring that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Fair values

There are no material differences between the fair value of financial instruments and the amount at which they are stated in the financial statements.

20. POST BALANCE SHEET EVENTS

No material post balance sheet events occurred after the end of the period.

21. INTEREST IN OTHER ENTITIES

The Company has a wholly owned subsidiary E-PHEN Limited, a company incorporated in England. The Company is dormant and has not traded in the period.

22. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, is set out on page 12.

There is an outstanding Directors Loan to Christophe Chassagnole of £960 relating to an historical share purchase. This loan is unchanged since 2016 when it also stood at £960.

23. ULTIMATE CONTROLLING PARTY

The Company does not currently have an ultimate controlling party and did not have one in this reporting year or the preceding reporting year.