ANNUAL REPORT AND ACCOUNTS

for the year ended December 31, 2018

Verseon

Cautionary note on forward-looking statements

This report contains forward-looking statements, which are generally statements that are not historical facts. Forward-looking statements can be identified by the words "expects," "anticipates," "believes," "intends," "estimates," "plans," "will," "outlook," and similar expressions. Forward-looking statements are based on management's current plans, estimates, assumptions, and projections, and speak only as of the date they are made. We undertake no obligation to update any forward-looking statement in light of new information or future events, except as otherwise required by law. Forward-looking statements involve inherent risks and uncertainties, most of which are difficult to predict and are generally beyond our control. Actual results or outcomes may differ materially from those implied by the forward-looking statements as a result of the impact of a number of factors.

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HIGHLIGHTS

ANTICOAGULATION

- VE-1902, our first precision oral anticoagulant (PROAC) for long-term anticoagulant-antiplatelet combination therapy, entered phase 1 clinical trials.
- A second PROAC, VE-2851, is also advancing toward clinical trials in 2020.

DIABETIC MACULAR EDEMA

- We nominated the first development candidate for clinical trials in our oral DME program.
- The development candidate VE-4839 is expected to enter phase 1 in H1 2020.

HEREDITARY ANGIOEDEMA

- Our oral drugs for this rare, potentially life-threatening disease, continue to show good potency and pharmacokinetics.

ONCOLOGY

- In preclinical testing, our new anticancer agents for the treatment of multidrug resistant cancers show improved potency and are largely unaffected by common modes of drug resistance.

PIPELINE DEVELOPMENT

- We initiated a new discovery program targeting metabolic disorders.

FINTECH

- We founded a wholly owned fintech subsidiary, BlockRules, that is developing transformative blockchain technology to power our preferred share offering on the blockchain (see post-period events).

FINANCE

Results for the year ended December 31, 2018:

- Total assets on the balance sheet stood at $56.4 million, compared to $54.2 million at the end of 2017.
- Cash, cash equivalents, and short-term investments stood at $3.6 million, compared to $11.6 million at the end of 2017.
- Property, equipment, buildings, and land totaled $51.3 million, compared to $40.7 million at the end of 2017.
- Research and development expenses were $13.8 million, compared to $15.1 million in 2017.
- General and administrative expenses were $8.0 million, compared to $6.3 million in 2017.
- Non-cash expenses include stock-based compensation of $1.7 million, compared to $0.9 million in 2017 and also a currency exchange loss of $4 thousand, compared to a gain of $0.6 million in 2017.
- Net loss was $21.6 million or $0.14 per basic share, compared to a net loss of $20.4 million or $0.13 per basic share in 2017.

GOING CONCERN

- The Company's financials have been prepared on a going concern basis, and the rationale for this is discussed in the footnotes to the financial statements under Note D, Summary of Significant Accounting Policies.

POST-PERIOD EVENTS

- Changed London Stock Exchange ticker to VERS.
- Closed common share subscription raising $10.7 million from existing shareholders.
- On March 18, 2019, announced intention to undertake a preferred share offering in 2019, backed by a prospectus and with transactions recorded on the blockchain (a security token offering). Once live, this global offering will enable us to accelerate the development of our diverse drug pipeline.

BUSINESS REVIEW

DRUG PIPELINE HIGHLIGHTS

- Built out our clinical program with lead PROAC VE-1902 in phase 1, PROAC VE-2851 slated to enter phase 1 in 2020, and a first DME development candidate, VE-4839, nominated.
- Expanded our diverse drug pipeline with a new discovery program in metabolic disorders.

CONFERENCES

- Biotech Showcase, San Francisco (hereditary angioedema)
- American Association for Cancer Research 2018 annual meeting, Chicago (oncology)
- Association for Research in Vision and Ophthalmology (ARVO) 2018 annual meeting, Honolulu (diabetic macular edema)
- BIO International Convention, Boston (PROACs)

IP UPDATE

- Continued to solidify the global patent protection for our computational platform and drug programs. In 2018, twelve patents were issued worldwide.
- Strengthened our IP protection in North America with two medicinal-chemistry-related subject matter patents issued in Mexico and Canada.
- Strengthened IP rights in the location of the PROAC phase 1 trial with four new issuances in Australia.
- Established IP protection for our drug programs in 30 countries with Verseon's first medicinal-chemistry-related patent issued in Europe.

ENTERING THE FINTECH ARENA

- To power our proposed preferred share offering to investors around the globe, we founded a wholly owned subsidiary, BlockRules.
- BlockRules technology will support the sale, launch, and trading of securities on a public blockchain.
- In contrast to existing platforms, BlockRules technology can reliably enforce regulatory compliance across multiple jurisdictions directly on the blockchain.
- BlockRules plans to make its technology available to other companies looking to raise funds from a global investor base.

CHAIRMAN'S STATEMENT

"In 2018, Verseon remained focused on growing and advancing their diverse drug pipeline. The Company reached a significant milestone when the first candidate from their new class of precision oral anticoagulants entered phase 1 clinical trials in Q3."

Thomas A. Hecht, PhD, Chairman of the Board

In 2018, Verseon remained focused on growing and advancing their diverse drug pipeline. The Company reached a significant milestone when the first candidate from their new class of precision oral anticoagulants entered phase 1 clinical trials in Q3. Verseon now also has a promising first development candidate in their diabetic eye disease program and initiated a new discovery program. As Verseon enters 2019, the Company's diverse drug pipeline continues to grow, as does its team of 60+ exceptionally talented scientists and engineers.

Throughout the year, the Board has monitored Verseon's strategic focus, which centers around discovering new drug candidates with unique profiles using proprietary, computer-driven technology. While Verseon's platform can be applied to a great number of diseases, the Company is highly selective in choosing new drug programs with unmet medical needs, well-defined clinical endpoints, and large market potential.

One of the greatest challenges for an early clinical-stage company of Verseon's size is financing the discovery and development process until the first drugs are approved and marketed. To support and accelerate the development of its growing drug pipeline, the Board has endorsed the intention to undertake an offering of preferred shares recorded on the blockchain in 2019. Once approved, these preferred shares are expected to grant holders non-discretionary dividend rights up to a fixed percentage of Verseon's future drug program revenues.

Through this proposed fundraise, the Company aims to build value for all shareholders, both current and future ones. Leveraging blockchain technology to provide more direct access to the investment opportunity, the offering has the potential to attract investors across many countries. Over the next few months, Verseon is also considering further funding either through debt financing or a sale-leaseback of their property in Fremont, CA.

The Board remains confident in the Company's ability to capture the increasing value of its drug pipeline. Thank you for your investment in Verseon and your continued support.

Thomas A. Hecht, PhD
Chairman of the Board

CHIEF EXECUTIVE'S STATEMENT

"Heading into 2019, we remain committed to advancing drug development and improving patients' lives."

Adityo Prakash, Chief Executive Officer

I am pleased to present our annual report, which documents a time of growth for Verseon. In 2018, we reached a major milestone with our first drug program entering clinical trials. The phase 1 study of VE-1902, our lead precision oral anticoagulant (PROAC), is ongoing with first results expected in Q4 2019. We also continue to advance a second, chemically distinct PROAC candidate to increase our odds of success.

Throughout the year, we have made a number of other notable advances across our drug pipeline. We have nominated our first development candidate for the oral treatment and prevention of diabetic macular edema. In our oncology program, we have developed multiple compounds showing promising anti-cancer effects in the laboratory against multidrug resistant tumor cells, and we have also launched a new program focusing on the treatment of metabolic disorders.

The positive developments across our pipeline are testament to the power of our innovative approach to drug discovery as well as the talent and dedication of our interdisciplinary team. What fundamentally distinguishes Verseon's drug discovery process from pharma competitors is our computationally driven platform that allows us to explore a vast, novel chemical space of potential drug candidates. This technology enables us to efficiently identify many structurally diverse drug candidates, all before putting a single molecule into a test tube. Our model is then to advance multiple compounds for each disease program into clinical trials, increasing our chances of developing new treatments that improve patient care.

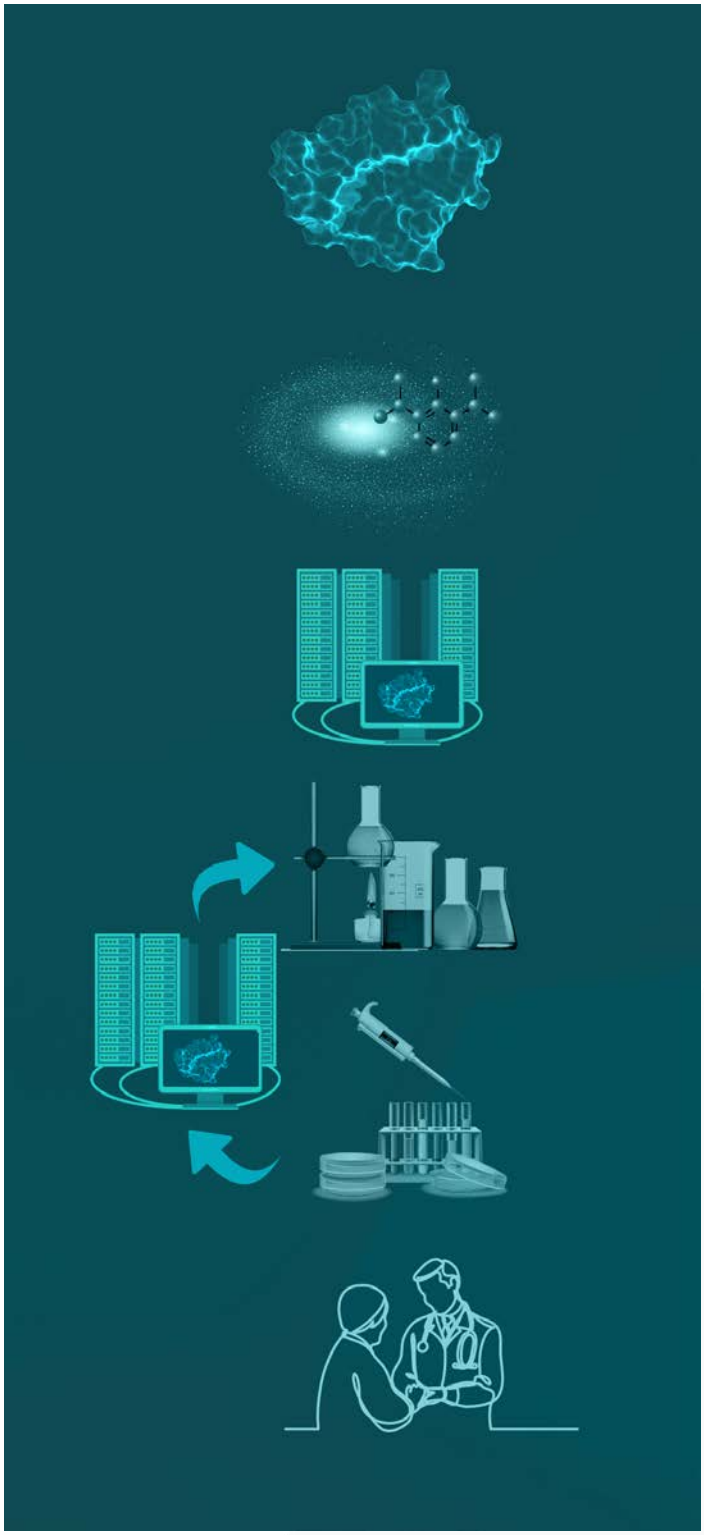
As part of our mission to develop disruptive technologies and therapeutic products that advance global health, we are rethinking the entire pharmaceutical R&D process, including how drug development is funded. To continue and accelerate the growth of our drug pipeline, in 2019 we intend to pioneer a preferred share offering that is expected to engage a global base of investors using blockchain technology. This offering is expected to allow us to stay committed to our vision of becoming a major source of future medicines and build value for our shareholders.

To make this a reality, we founded a wholly owned fintech subsidiary, BlockRules, that is building technology to power regulations-compliant global securities issuances. This work is not only paving the way for Verseon's offering, but is defining a new model for funding innovation that we plan to open up to other companies as well.

Heading into 2019, we remain committed to advancing drug development and improving patients' lives through our active clinical trials program, growing number of novel drug candidates, and our robust and diversified pipeline.

Adityo Prakash
Chief Executive Officer

THE VERSEON PROCESS



SELECT TARGET PROTEIN

Any protein with known 3D structure is a potential target.

BREAK SYNTHESIS BOTTLENECK

For each target, we generate tens of millions of new, virtual, drug-like molecules on the computer, almost all of which have never before been synthesized.

IDENTIFY POTENTIAL DRUG CANDIDATES

We replace trial-and-error methods with advanced physics-based modeling to efficiently and reliably find promising molecules that bind to the target protein.

SYNTHESIZE PROMISING MOLECULES

The output of our computational engines represents multiple chemically diverse compound families that are ready for synthesis.

TEST & OPTIMIZE BEST CANDIDATES

We efficiently prioritize drug candidates based on comprehensive lab tests and optimize candidates further using the computational platform.

SEND MULTIPLE CANDIDATES INTO CLINICAL TRIALS

For each program, our process generates multiple chemically distinct candidates for clinical trials, which significantly increases our chances of success.

VIAT™: A PLANNED GLOBAL PREFERRED SHARE OFFERING

As part of our mission to develop disruptive technologies and products that advance global health, we are rethinking the pharmaceutical R&D process, including how drug development is funded.

In March of 2019, we announced our intention to undertake a preferred share offering to accelerate the development of our diverse drug pipeline.

SHARING OUR SUCCESSES WITH A GLOBAL INVESTOR BASE

We are planning to offer a form of preferred share with transactions recorded on a global distributed ledger, a security token that we are calling VIAT™. Holders of VIAT™, a proposed regulated transferrable security, are expected to have rights to non-discretionary dividends up to a fixed percentage of Verseon's future drug program revenues[1].

We plan for the VIAT™ offering to be one of the first global offerings of its kind and are working with advisors and legal counsel on an EU prospectus. Once approved, we expect our preferred share offering to be available to retail investors in the UK and EU and to investors in certain other jurisdictions, subject to additional approval from local regulators. VIAT™ is expected to also be available to accredited investors, including those in the US.

We intend to conduct the VIAT™ offering as a private sale followed by a public sale upon approval of a prospectus. While the VIAT™ offering is expected to take place in 2019, investors should note that this remains subject to approvals from the corresponding regulatory bodies and investor demand.

POWERED BY BLOCKRULES

We plan to use the technology and services of our wholly owned fintech subsidiary BlockRules to facilitate regulations compliance across various global jurisdictions for each VIAT™ transaction, on both primary and secondary markets. BlockRules' blockchain technology has the potential to revolutionize fundraising by bringing greater efficiency, cost savings, and additional liquidity to capital markets.

Until recently, no comprehensive solution was available that could enforce the complex regulations governing a securities offering across multiple countries in a reliable and transparent manner. BlockRules is targeting a solution for this key issue with the BlockRules Compliance Engine that operates completely on the blockchain for maximum security and transparency. The Compliance Engine is designed to support the regulatory-compliant sale, issuance, and trading of VIAT™ to an international investor base.

The VIAT™ offering may serve as a model for connecting companies with investors around the globe. To realize this new mode of public offering, BlockRules plans to open up its secure end-to-end platform to other companies looking to launch their own regulated securities recorded on the blockchain.

BlockRules intends to engage third-party companies who will serve as the interface between issuing companies and BlockRules technology, and who are expected to provide advisory and services to issuers. BlockRules has already partnered with a first such company, Swiss financial services firm Neuseren S.A.

BLOCKCHAINS CAN TRANSFORM CAPITAL MARKETS

- Allow a global investor community to participate
- Unlock greater liquidity
- Bring speed and cost-efficiency by removing bottlenecks
- Are secure and transparent as all transactions are recorded on an immutable, public ledger

VIAT™ COMBINES SECURITY AND UTILITY VALUES

Through its ties to Verseon's future drug program revenue, VIAT™ is expected to have intrinsic value for its holders. Each share will represent non-discretionary dividend rights up to a fixed percentage of revenues from our drug programs.

Other companies using the BlockRules platform to issue their own securities on the blockchain are expected to pay some of their fees in VIAT™ purchased from the open market, thus giving VIAT™ a potential utility value.

[1] The preferred shares is expected to confer rights to the Verseon's cash available for distribution capped at 10^{-8}% of the company's drug program revenue in perpetuity per circulating share.

PRECISION ORAL ANTICOAGULANTS (PROACS)

"Verseon's PROACs have the potential to open up safer long-term co-dosing with antiplatelet agents for cardiac patients, a need that current antithrombotic combinations have failed to meet. I look forward to the results of their phase 1 trial later this year."

- Prof. Keith Fox, British Heart Foundation and Duke of Edinburgh Professor of Cardiology at the University of Edinburgh, member of Verseon's Cardiovascular Clinical Advisory Board

Millions of patients worldwide could benefit from safe long-term therapy combining an oral anticoagulant with antiplatelet drugs (i.e., aspirin, Plavix™) to prevent stroke or heart attack. This includes patients suffering from acute coronary syndrome (ACS) and those with both non-valvular atrial fibrillation and coronary artery disease (NVAF+CAD). With standard anticoagulants, however, such combination treatment is generally limited in duration because of an increased risk of major bleeding.

We have developed a new class of precision oral anticoagulants (PROACs) that show significantly reduced bleeding in preclinical studies. Importantly, PROACs do not disrupt platelet function while effectively inhibiting thrombosis, a unique combination that makes them promising therapeutic candidates for patients needing long-term anticoagulant-antiplatelet combination therapy. In addition, PROACs could also provide a safer treatment option for traditional anticoagulation patients (e.g., NVAF or venous thromboembolism). Our first PROAC clinical candidate, VE-1902, is currently in a phase 1 clinical trial.

PROACS SHOW NOVEL PHARMACOLOGY IN PRECLINICAL TESTING

Our laboratory studies have demonstrated that PROACs modulate the coagulation cascade more precisely and with less bleeding than novel oral anticoagulants (NOACs), the current standard of care. Additionally, *in vivo* models showed that PROACs effectively inhibit blood clots.

Underlying this novel profile is the distinct mechanism of how the PROACs inhibit thrombin, the therapeutic target. In the thrombin generation assay, a well-established measure of clotting, a delay in peak thrombin production signals the inability of the body to mount a hemostatic response in case of injury and an increased risk of bleeding. In contrast to current anticoagulants, PROACs do not introduce a delay before peak thrombin production at therapeutic levels.

Flow cytometry studies of thrombin-mediated platelet activation, another key ingredient in blood clotting, have revealed another distinguishing feature: PROACs inhibit platelet function significantly less than NOACs at their respective efficacious doses. This provides a biological explanation for the significantly reduced bleeding of PROACs compared to NOACs. In addition, lack of disruption of platelet function allows PROACs to more precisely influence the coagulation cascade, making them more suitable for co-administration with antiplatelet drugs.

LEAD PROAC VE-1902 IS IN CLINICAL TRIALS

Our lead PROAC, VE-1902, is characterized by a broad therapeutic window with high no observed adverse effect level (NOAEL, at least 300 mg/kg) in regulatory toxicology studies, no signs of genotoxicity, and lower renal clearance than NOACs in preclinical models. The latter finding is especially important for elderly patients and those with impaired kidney function—two patient groups with currently limited treatment options.

Its novel preclinical profile makes VE-1902 a promising anticoagulation candidate for patients with a high risk of major bleeding.

>400 MILLION

Cardiovascular disease patients worldwide (2015)[2]

60 MILLION

Patients globally who could benefit from PROACs[3]

$80 BILLION PER YEAR

Global combination therapy and anticoagulant market[4]

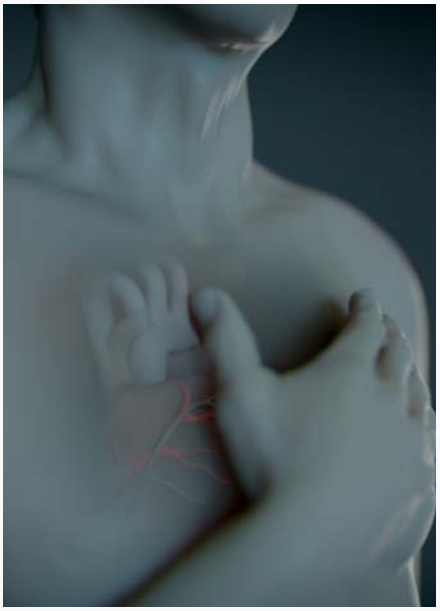
In late 2018, we began a phase 1 clinical trial to assess the safety and tolerability of VE-1902 in human subjects. First-in-human dosing started in Q1 2019.

The study, based in Melbourne, Australia, is a single-center, double-blinded, randomized, placebo-controlled study designed to assess safety and tolerability in single ascending dose (SAD) and multiple ascending dose (MAD) study arms.

Patient blood samples will also be collected to assess thrombin generation, a clinical marker of coagulation, platelet count, and platelet function. The trial will also include a study of food effect to test whether diet affects drug absorption.

VE-2851—A SECOND PROAC CANDIDATE FOR CLINICAL TRIALS

Our second PROAC development candidate, VE-2851, has a different chemotype but



shares the same distinctive pharmacological profile as VE-1902. Notably, this candidate is significantly more potent than VE-1902, which may allow for lower dosing in the clinic.

LOOKING AHEAD

Participant dosing in the VE-1902 clinical trial is expected to continue through Q3 2019, with results in Q4 2019. VE-2851 has been scaled up to kilogram quantities and is currently in preliminary toxicology studies. The second development candidate is targeted to enter phase 1 clinical trials in H1 2020.

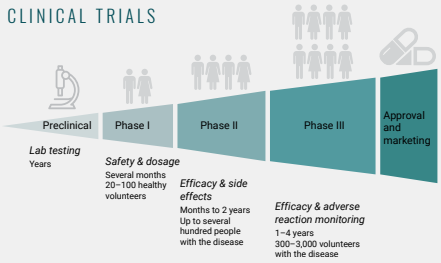
[2] G.A. Roth et al., Journal of American College of Cardiology (2017)

[3] Estimate based on ACS and NVAF prevalence, focusing on high-income countries

[4] Company estimate of total addressable market based on atrial fibrillation (including NVAF+CAD) and ACS incidence/prevalence and average oral drug costs focusing on high-income countries

THE VE-1902 PHASE 1 CLINICAL TRIAL

The phase 1 trial for VE-1902 is a single-center, double-blinded, randomized, placebo-controlled study designed to assess the compound's safety and tolerability. A total of 100–120 healthy adult volunteers, aged 18–55, are assigned to either the single ascending dose (SAD) or multiple ascending dose (MAD) study arm. Participants within each arm are randomized to active drug or placebo.



SINGLE ASCENDING DOSE ARM

Goals

- Establish safety of a single dose of VE-1902
- Determine dosing parameters for later studies
- Study food effects on absorption of VE-1902

SAD arm details

- Conducted in six cohorts with initial cohort receiving lowest dose (or placebo)
- Blood samples are tested to determine whether the pharmacodynamic threshold for optimal activity is reached
- Subsequent cohorts test higher doses to help determine a therapeutic range

MULTIPLE ASCENDING DOSE ARM

Goals

- Study safety of multiple doses
- Observe pharmacologic effects

MAD arm details

- Conducted in four cohorts receiving daily dosing for one week
- Initial cohort receives lowest dose that achieved the pharmacodynamic threshold in the SAD arm (or placebo)
- Blood samples are tested to determine dose adjustments for subsequent MAD cohorts to optimize pharmacodynamics

ORAL DRUGS FOR DIABETIC MACULAR EDEMA

"An oral treatment for DME, which is one of the leading causes of blindness, would be a huge step forward for patients. Regular injections into the eye are not acceptable to many patients due to the degree of invasiveness, potential trauma, and risk of infection from such a surgical procedure. There is a clear need for new, oral drugs that could also be used prophylactically."

- Julian Jackson, founder of VisionBridge, a leading organization supporting advocacy for new preventative treatments in ophthalmology and the promotion of innovation in eye research

DME: A LEADING CAUSE OF ADULT BLINDNESS

Diabetic macular edema (DME) is a major cause of vision loss in patients with chronic diabetes. High blood sugar weakens the blood vessels in the eye, leading to fluid accumulating in the macula, the central region of the retina, and ultimately central vision loss.

Researchers estimate that about one third of long-term diabetic patients are at risk of developing DME, a group that is expected to grow significantly as the global diabetic population escalates from roughly 425 million to over 600 million over the next 25 years[8]. With the prevalence of diabetes on the rise, preventing complications like DME is becoming increasingly urgent.

CURRENT TREATMENTS AREN'T SUITABLE FOR PROPHYLAXIS

Approved DME treatments today are anti-VEGF agents and corticosteroids, which are administered through recurring injections directly into the eye or implants.

Eye injections are associated with numerous side effects including inflammation, infection, and cataracts, and anti-VEGF injections work poorly or not at all in about half of patients[9]. Recent studies have also shown that 25% of patients fail to follow up with their eye injections, leaving them at risk of eventual vision loss[10]. As a result, current treatments are poorly suited for long-term preventative treatment.

VERSEON ADDRESSES THIS NEED

At Verseon, we are developing a new class of oral small-molecule plasma kallikrein inhibitors for the treatment of DME. In addition to providing a more convenient treatment option for the more than 20 million DME patients worldwide, our drug candidates have the potential to be used for long-term prevention of DME.

DEVELOPMENT CANDIDATE NOMINATED

In Q4 2018, we nominated the first development candidate for clinical trials in this program. VE-4839 (see box) is characterized by high potency for plasma kallikrein and selectivity over related serine proteases. The candidate also shows pharmacokinetics suitable for oral dosing as a prodrug and effectively reduces retinal thickening in an *in vivo* preclinical model using activated human plasma kallikrein.

Preliminary genotoxicity studies for the development candidate were very promising. VE-4839 was clean in hERG, Ames, and *in vitro* micronucleus studies. In addition, a Safety44 panel, an *in vitro* test that can identify potential *in vivo* adverse drug reactions, revealed no off-target liabilities.

We have completed an intermediate scale-up of prodrug VE-4840 for further efficacy studies. This material will also be used for preliminary toxicology, including dose-range finding studies, which immediately precede regulatory toxicology studies.

451 MILLION

Diabetes mellitus patients worldwide[5]

21 MILLION

People worldwide suffering from DME[6]

$65+ BILLION PER YEAR

Estimated global DME market, including prophylaxis[7]

OUTLOOK

We have initiated a larger, multi-kg scale-up of the development candidate. This material will be used for regulatory toxicology and safety pharmacology studies slated to start later in 2019. A part of the synthesis intermediate from this scale-up will be used in GMP synthesis of the drug substance for the phase 1 clinical trial anticipated to start in 2020.

In addition to development candidate VE-4839, we continue to optimize a number of other promising compounds with the goal to nominate additional development candidates with different chemotypes for clinical trials.

[5] In 2017, N. H. Cho et al., Diabetes Research and Clinical Practice (2018)

[6] Diabetes care, 2012

[7] Estimate based on average global drug costs of $2/day and 20% adoption in the diabetic population

[8] https://www.diabetesatlas.org, June 2019

[9] M. A. Singer et al., F1000 Faculty Rev. (2016)

[10] https://www.healio.com, May 2019

DEVELOPMENT CANDIDATE VE-4839 IN PROFILE

Biochemical profile

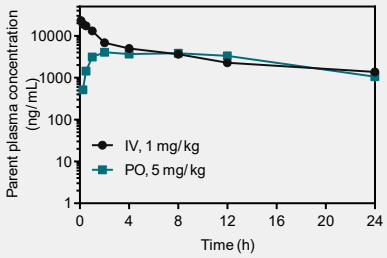
Our oral, small-molecule plasma kallikrein inhibitor VE-4839 shows double-digit nanomolar potency for plasma kallikrein and high selectivity over other related serine proteases.

Biochemical profile	VE-4839
KLKB1 IC_{50}	15 nM
Selectivity vs serine protease panel (thrombin, FVIIa, FXa, FXIa, FXIIa, aPC, chymotrypsin, tryptase)	> 100x
Human KGA EC_{50}	338 nM
Human whole blood stability $t_{1/2}$	>1000 min
Human hepatocyte stability $t_{1/2}$	>400 min
CYP Inhibition panel @ 10 µM (1A2, 2B6, 2C8, 2C9, 2C19, 2D6, 3A4)	Clean
hERG inhibition @ 10 µM	Clean

Pharmacokinetics suitable for oral dosing

VE-4839, administered as a prodrug VE-4840, shows excellent pharmacokinetics for oral dosing with a half-life of about eight hours.

VE-4839 PHARMACOKINETICS



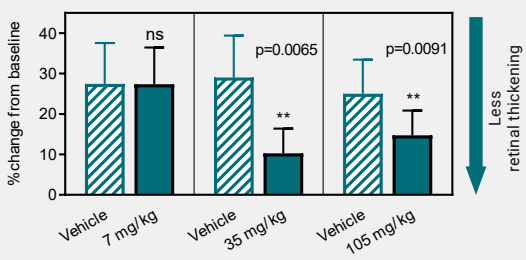
Effectively reduces retinal thickening

The development candidate has also demonstrated efficacy in an *in vivo* model using activated human plasma-kallikrein (hPK) injection to mimic the retinal thickening observed in DME patients. In this preclinical model, either prodrug VE-4840 or vehicle are administered orally two hours before hPK injection.

Treatment with VE-4840 (solid) results in a statistically significant reduction in retinal thickening compared to vehicle (hatched) at doses of 35 and 105 mg/kg (p-values 0.0065 and 0.0091, respectively).

This result highlights the potential of our development candidate to counteract retinal thickening, an important hallmark of DME, in a preclinical setting.

RETINAL THICKNESS AFTER hPK INJECTION



ORAL DRUGS FOR HEREDITARY ANGIOEDEMA

HAE: A RARE, POTENTIALLY LIFE-THREATENING DISEASE

Hereditary angioedema (HAE) is a rare genetic disease characterized by recurring episodes of severe swelling. In this autosomal-dominant disorder, a mutation of the C1 inhibitor leads to an overactivity of several serine proteases, including plasma kallikrein. This can result in dangerous episodes of acute edema of the face, limbs, or abdomen. If the airways are affected, such attacks can even be life-threatening.

This orphan disease affects about one in 10,000–50,000 people worldwide. However, the actual HAE population might be significantly larger as only an estimated 40% of HAE patients are diagnosed correctly due to missing disease awareness.[12]

INJECTABLE TREATMENTS ARE FALLING SHORT

Current treatment regimens aimed at preventing attacks involve regular intravenous or subcutaneous injections, which presents a significant burden for patients and carries risk of infection. Oral drugs, in contrast, are expected to have a significant positive impact on the lives of HAE patients, especially for ongoing disease prophylaxis.

CURRENT TREATMENT LANDSCAPE

Current HAE treatments target different mediators in the disease pathway and can be divided into two categories with chronic treatments focusing on replacing the missing C1-esterase inhibitor for patients with frequent attacks and acute treatments aiming to inhibit downstream protease activation that leads to edema.

The serine protease plasma kallikrein in particular has emerged as a promising target over recent years. The success of Shire's subcutaneous polypeptide plasma kallikrein inhibitor Kalbitor™ as well as the recent approval of Takhzyro™, Takeda's (formerly Shire) subcutaneous monoclonal antibody plasma kallikrein inhibitor, provide strong evidence that plasma kallikrein is an important target central to the HAE disease pathway.

Plasma kallikrein plays a key role in inflammation, blood pressure control, coagulation, and pain, with C1 inhibitor responsible for down-regulating activated factor XII and plasma kallikrein within the kallikrein-kinin system (KKS). Insufficient levels or improperly functioning C1 inhibitor associated with HAE can result in an overactivation of the KKS, which results in inflammation and vasodilation, and eventually to edema or swelling.

PROVIDING AN ORAL ALTERNATIVE TO INJECTIONS

We are developing a class of small-molecule plasma kallikrein inhibitors that are suitable for convenient, oral dosing. Our drug candidates are characterized by excellent potency and selectivity for plasma kallikrein and pharmacokinetics allowing for oral administration (see box). Several drug candidates also effectively reduce swelling in a preclinical efficacy model and are clean in genotoxicity studies, a CYP inhibition panel, and hERG inhibition studies.

OUTLOOK

We are continuing to optimize the pharmacokinetic profiles of several series of compounds and test a number of candidates in efficacy models.

[11] Based on incidence and diagnosis rates
[12] Transparency Market Research (2018)

2 MILLION

Estimated number of HAE patients worldwide[11]

760 THOUSAND

Diagnosed HAE patients worldwide[11]

$3.8 BILLION PER YEAR

Estimated global DME market in 2025[12]

SELECT HAE CANDIDATES IN PROFILE

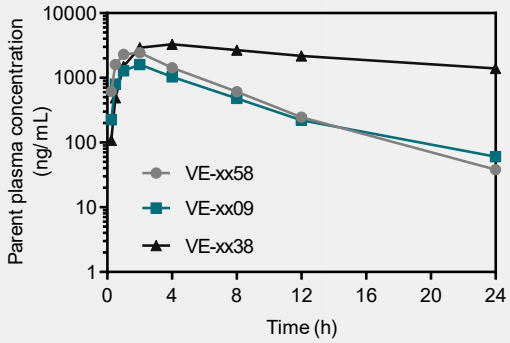
We have developed several series of promising compounds for the treatment of HAE. Our small-molecule plasma kallikrein inhibitors show excellent potency for plasma kallikrein and are selective against a panel of serine proteases. They show good stability in human whole blood and hepatocytes and do not inhibit the hERG gene.

	VE-xx58	VE-xx09	VE-xx38
KLKB1 IC_{50}	3 nM	6 nM	17 nM
Selectivity vs serine protease panel (thrombin, FVIIa, FXa, FXIa, FXIIa, aPC, chymotrypsin, tryptase)	> 100x	> 100x	> 100x
Human KGA EC_{50}	65 nM	596 nM	411 nM
Human whole blood stability $t_{1/2}$	120 min	300 min	>500 min
Human hepatocyte stability $t_{1/2}$	150 min	140 min	>400 min
CYP Inhibition panel @ 10 µM (1A2, 2B6, 2C8, 2C9, 2C19, 2D6, 3A4)	clean	2C8: 30% inhibition	clean
hERG inhibition @ 10 µM	clean	clean	clean

Pharmacokinetics

When orally administered as prodrugs, a number of our compounds show excellent pharmacokinetics.

ORAL PHARMACOKINETICS



NEXT-GENERATION CHEMOTHERAPY AGENTS

Chemotherapy remains the first line of treatment for most cancers. However, for many cancer diagnoses, a favorable treatment response over time remains difficult because cancer cells develop resistance to standard treatments.

WHAT CAUSES MULTIDRUG RESISTANCE

A common way for cancer cells to render drugs ineffective is by overproducing transporter proteins (efflux pumps) that expel certain compounds, including chemotherapy agents. As cancer cells increase expression of these pumps, they decrease the concentration of available drug, leading to resistance.

Another common way for cancer cells to become resistant to treatment is by upregulating β-III tubulin. This can inhibit apoptosis, the primary mechanism of chemotherapy-induced cell death, while also enhancing invasion of local tissues and metastasis.

CHEMO AGENTS THAT EVADE COMMON MODES OF DRUG RESISTANCE

We have developed a novel class of small-molecule anticancer drug candidates that show promising preclinical effects against multidrug-resistant cancers. These compounds potently disrupt tubulin polymerization *in vitro*, thereby inhibiting cancer cell replication. Importantly, our preclinical data show that a range of cancer cell lines remain sensitive to our drugs despite overexpression of efflux pumps and β-III tubulin, two common modes of acquired cancer-drug resistance.

While standard chemotherapies such as doxorubicin, paclitaxel, and vincristine can show up to 2,000-fold reduced potency when cell lines overexpress major efflux pumps (MDR1, MRP1, and BCRP), our preclinical studies show that Verseon's drug candidates are only weakly affected by these transporters.

Likewise, *in vitro* data show that our drug candidates are able to maintain potency in cancer cells overexpressing β III tubulin, indicating that they are also unaffected by this common mechanism of acquired treatment resistance. These results suggest that Verseon's chemotherapy agents could be effective in treating multidrug resistant cancers.

PHARMACOKINETICS SUITABLE FOR USE IN COMMON CHEMOTHERAPY REGIMENS

We have developed a number of compound series with distinct chemotypes and robust, double-digit nanomolar activity against established cancer cell lines *in vitro*. Select candidates have shown favorable pharmacokinetics for intravenous infusion, a standard mode of administering chemotherapy agents.

Preclinical repeat-dosing over five days with intraperitoneal injections with one of the candidates was well tolerated at doses that are expected to be above therapeutic concentrations.

NEXT STEPS

We continue to optimize our leading candidate compounds for potency and pharmacokinetic profiles and are planning to conduct *in vivo* tolerability and efficacy studies using xenograft models for the most promising compounds.

[13] http://www.ourworldindata.org/cancer, June 2019

[14] American Cancer Society, Cancer Facts and Figures

[15] Company estimate of total addressable market based off incidence rates, chemotherapy usage rates, and average chemotherapy costs focusing on high-income countries

[16] G. Raspaglio et al. Gene (2007)

[17] P. Sève and C. Dumontet. The Lancet Oncology (2008)

100 MILLION

Cancer patients worldwide (2017)[13]

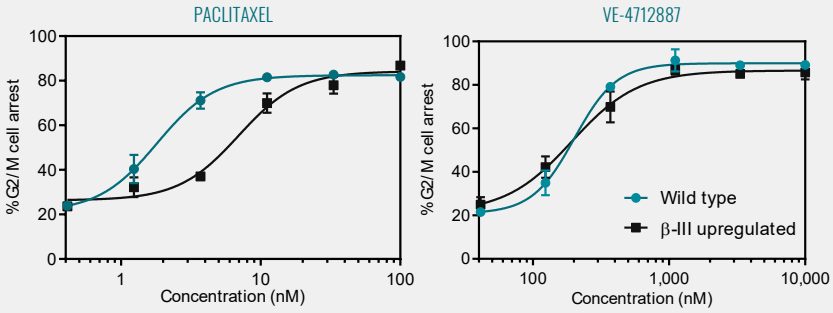
40%

Lifetime chance of getting cancer[14]

$34 BILLION PER YEAR

Estimated global cancer market (2022)[15]

CHEMOTHERAPY RESISTANCE BY UPREGULATING ß-III TUBULIN



In oncology, the β-III tubulin protein is an important survival factor that renders cancer cells resistant to many standard chemotherapy agents while also promoting disease progression through local tissue invasion and metastasis[16].

β-III tubulin has been reported as a negative prognostic biomarker and an indicator of resistance to certain types of chemotherapy, implicating class III β-tubulin as a biomarker of poor treatment outcome[17].

Using established cancer cell lines, we showed in preclinical testing that upregulation of β-III tubulin leads to greater resistance to the common chemotherapy agent paclitaxel (left). In contrast, cells upregulating β-III remained equally sensitive to our novel tubulin inhibitor (right).

FINANCE REVIEW

In 2018, Verseon has continued to fund its drug programs in anticoagulation, diabetic macular edema, hereditary angioedema, and oncology and initiated an additional discovery program in metabolic disorders. In addition, the Company has founded BlockRules, a wholly owned blockchain fintech subsidiary.

RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018:

- Total assets on the balance sheet stood at $56.4 million, compared to $54.2 million at the end of 2017.
- Cash, cash equivalents, and short-term investments stood at $3.6 million, compared to $11.6 million at the end of 2017.
- Property, equipment, buildings and land totaled $51.3 million, compared to $40.7 million at the end of 2017.
- Research and development expenses were $13.8 million, compared to $15.1 million in 2017.
- General and administrative expenses were $8.0 million, compared to $6.3 million in 2017.
- Non-cash expenses include stock-based compensation of $1.7 million, compared to $0.9 million in 2017, and also a currency exchange loss of $4.0 thousand, compared to a gain of $0.6 million in 2017.
- Net loss was $21.6 million or $0.14 per basic share, compared to a net loss of $20.4 million or $0.13 per basic share in 2017.

CAPITAL STRUCTURE

At December 31, 2018, Verseon's issued share capital consisted of 151,640,732 shares of common stock and the Company held 42,917 shares in treasury, as compared to 151,489,789 shares of common stock outstanding with 42,917 shares in treasury at December 31, 2017.

RISKS AND UNCERTAINTIES

RESEARCH AND DEVELOPMENT RISKS

Drug development projects are subject to numerous external influences, including economic and regulatory environments, that are outside our control.

We cannot be certain that our current or future drug development efforts will result in drug candidates that progress into human trials and subsequently into the marketplace.

The market for pharmaceuticals is highly competitive and our drug candidates may not become adopted by the medical community and may not become profitable.

RISKS RELATED TO OPERATIONS

We may not be able to find, attract, and retain personnel.

Unfavorable global economic conditions, natural disasters, and other factors outside our control may adversely affect us.

We rely on third parties for a portion of our scientific work as well as for manufacturing of drugs and other supplies for our clinical trials. If this work does not meet sufficient quality standards or if one of those third parties fails to live up to their obligations, operations might be negatively impacted.

Our growth may require significant capital expenditures and can experience unexpected delays that could impact various aspects of operations.

RISKS RELATED TO INTELLECTUAL PROPERTY

Competitors may infringe upon our patents and other intellectual property and force us to defend our intellectual property by legal means.

Other companies could develop or market drug candidates with comparable treatment capabilities, reducing the market potential of our drugs.

FINANCIAL RISKS

Our Common Stock is settled in pound sterling, but our operations are in the United States, and, to date, we use US dollars to fund our operations. We hold funds in both currencies and are susceptible to currency fluctuations.

We have initiated clinical operations in Australia, which requires payment of vendors and contractors in Australian dollars. Currency fluctuations relating to the Australian dollar may also affect our net operating losses.

The net losses we incur may fluctuate significantly from half-year to half-year and year to year. In any particular reporting period, our operating results could be below the expectations of securities analysts or investors, which could cause the stock price to decline.

To date, we have financed our operations primarily through the sale of equity securities, convertible debt, and the mortgage loan on our freehold building signed in June 2018. The amount of our future net losses and sustainability will depend, in part, on the rate of our future expenditures and our ability to obtain funding through equity or debt financing, strategic collaborations, or out-licensing of one or more of our product candidates to potential partners.

We have not yet generated revenue and cannot be certain of securing revenue-generating agreements and profits in the future.

RISKS RELATED TO SECURITIES

Even though our Common Stock is listed on AIM, a liquid market for it may not develop or be sustained.

Company operations are based in the United States, and we are incorporated under the laws of the State of Delaware, United States. Accordingly, some of the legislation in England and Wales regulating the operation of companies may not apply to us.

BOARD OF DIRECTORS

THOMAS A. HECHT, PHD

Non-Executive Chairman

Dr. Hecht has forty years of experience in business development, strategic planning, process engineering, quality management, and environmental policy. During his more than thirty years at Chevron Corporation, he served in senior positions in the United States, Australia, and South Korea. His final positions were Executive Vice President of Strategy for NWS Australia LNG and Vice President of LNG Procurement for GS Caltex in Korea. Dr. Hecht received his PhD from the California Institute of Technology.

SANGTAE KIM, PHD

Non-Executive Director

Dr. Kim has a distinguished career in chemical engineering with senior roles in both industry and academia. A former VP at Lilly Research Laboratories and Parke-Davis Pharmaceutical Research, he is currently Distinguished Professor of Chemical Engineering at Purdue University. Dr. Kim is a member of the National Academy of Engineering and a fellow of the American Institute of Medical and Biological Engineers. He received concurrent BSc and MSc degrees from California Institute of Technology and his PhD from Princeton.

ADITYO PRAKASH

Chief Executive Officer

Mr. Prakash is experienced in bringing breakthrough technologies to market. Prior Prior to founding Verseon, Mr. Prakash was co-founder and CEO of Pulsent Corporation. He grew the company over five years and was instrumental in bringing Pulsent's video compression and signal processing technology to the marketplace. He is also an inventor on 38 patents. Mr. Prakash received his BS in Mathematics and Physics from the California Institute of Technology.

ENIKO FODOR

Chief Operating & Chief Financial Officer

Ms. Fodor is experienced in building cutting-edge technology organizations with highly effective operating, marketing, and IP strategies. Prior to founding Verseon, Ms. Fodor co-founded Pulsent Corporation where she was the Chief Operating Officer. She played a pivotal role in growing the company and developing highly effective operating, marketing, and intellectual property strategies. She is also an inventor on 23 patents. Ms. Fodor received her BS in Physics from Universitatea Bolyai in Romania.

DIRECTORS' REPORT

The Directors of the Company present their report and audited financial statements for the year ended December 31, 2018.

PRINCIPAL ACTIVITY

Verseon is an emerging pharmaceutical company. Its proprietary platform is capable of modeling interactions between a protein and a drug molecule with precision sufficient for designing new drug candidates. Verseon has been leveraging its drug discovery technology to seed a growing portfolio of programs targeting diverse disease areas, currently consisting of anticoagulation, diabetic macular edema, hereditary angioedema, oncology, and metabolic disorders.

Verseon plans to expand its pipeline of drug discovery programs to a multitude of disease areas.

GOING CONCERN

Subsequent to the Balance Sheet date, on March 19, 2019, $10.7m was raised through the issue of 7.7m new common shares.

Over the next few months, further funding will be sought through additional debt funding against the property or through a sale-leaseback of the property. Furthermore, during the next 12 months, the Company intends to seek additional funding through the launch of VIAT™ preferred shares using the BlockRules platform. Backed by a prospectus and with transactions recorded on the blockchain, this offering, once live, is expected to allow the Company to raise funds from a global investor base to accelerate the development of its diverse drug pipeline. However, the Directors consider the achievement of this funding as a material uncertainty that may cast significant and substantial doubt on the Company's ability to continue as a going concern within one year after the date of the approval of the financial statements, and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The material uncertainty is due to the fact that future funding through the raising of further finance is inherently uncertain as it requires third parties to invest money in the future which is not committed at the date of the accounts, and therefore this represents a material uncertainty. Notwithstanding this, the Directors continue to adopt the going concern basis in preparing the financial statements as they believe that this fundraising will be successful. The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate.

DIVIDENDS

The Directors do not recommend the payment of a dividend in the current year. No dividends were paid in prior years.

EMPLOYEE INVOLVEMENT

The Company's policy is to encourage employee involvement at all levels, as it believes that this is essential for the success of the business.

DIRECTORS AND THEIR INTERESTS

The Directors during the year and up to the date of this report are as follows:

Executive

- Adityo Prakash
- Eniko Fodor

Non-executive

- Thomas Hecht, PhD
- Robert Karr, PhD (resigned as of November 5th, 2018)
- Grover Wickersham (resigned as of November 5th, 2018)
- Xavier Rolet (appointed on November 5th, 2018 and resigned as of February 23rd, 2019)
- Sangtae Kim (appointed on November 5th, 2018)

Directors' interests in shares are shown in the Compensation Committee report.

ADVISERS

Nominated adviser and joint broker

- Arden Partners plc

  125 Old Broad Street
  London EC2N 1AR
  United Kingdom

Joint broker

- Cantor Fitzgerald Europe

  One Churchill Place
  Canary Wharf
  London E14 5RB
  United Kingdom

Auditor

- Deloitte LLP

  Abbots House
  Abbey St
  Reading RG1 3BD
  UK

Deloitte LLP has expressed willingness to continue in office as auditor.

Registrars

- Computershare Investor Services (Jersey) Limited

  Queensway House
  Hilgrove Street
  St Helier JE1 1ES
  Jersey

This report was approved by the Board on June 28, 2019.

Eniko Fodor

Executive Director

GOVERNANCE REPORT

PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Verseon is committed to high standards of corporate governance. The Directors recognize the importance of good governance and comply with the provisions of the Corporate Governance Code for Small to Mid-Sized Quoted Companies, published from time to time by the Quoted Companies Alliance, to the extent that they believe it is appropriate in light of the size, stage of development, and resources of the Company. Further details on how Verseon has complied with the Quoted Companies Alliance Corporate Governance Code for Small to Mid-Sized Quoted Companies can be found on our website under the Governance section.

As the Company grows, it will regularly review the extent of its corporate governance practices and procedures.

APPLICATION OF PRINCIPLES

Board of Directors

The Board consists of a Non-Executive Chairman, two Executive Directors, and a Non-Executive Director.

The Board is responsible for overall Company strategy, acquisition and divestment policy, approval of the budget, approval of major commercial contracts and capital expenditure projects, and consideration of significant operational and financial matters. The Board monitors the exposure to key business risks and reviews the progress of the Company toward achievement of its budgets and forecasts. This is achieved by the close involvement of the Executive Directors in the day-to-day running of the business and by regular reports submitted to and considered at meetings of the Board and subcommittees. The Board also considers employee issues, key appointments, and compliance with relevant legislation.

The Board has both an Audit Committee and a Compensation Committee. The Board does not consider it necessary to constitute a separate Nominations Committee, and all members of the Board are consulted on the potential appointment of a new Director or a company secretary.

All Directors are able to take independent professional advice in relation to their duties, if necessary, at the Company's expense.

The Board is divided into two classes, as nearly equal in number as possible, designated Class I and Class III. Class I Director Thomas Hecht was reelected at the 2016 annual general meeting to a three-year term expiring at the Company's annual general meeting in 2019. Director Sangtae Kim has been elected as a Class I Director at the 2018 annual general meeting and his term will expire at the Company's annual general meeting in 2019. Class III Directors Adityo Prakash and Eniko Fodor were reelected at the 2018 annual general meeting to a three-year term expiring at the Company's annual general meeting in 2021.

Board and committee meetings

In 2018, Verseon's Board of Directors met six times before the Board change of November 5, 2018, and once thereafter. Of the six meetings, Mr. Prakash, Ms. Fodor, Dr. Hecht, and Dr. Karr attended all and Mr. Wickersham attended four. The final meeting was attended by all Directors at the time. There were two meetings of the Audit Committee and one of the Compensation Committee, all with full attendance.

Relationship with shareholders

The Board attaches high importance to maintaining good relationships with all shareholders. The Company intends to have regular meetings and communications with shareholders to keep them updated on the Company's performance, strategy, management, and Board membership.

Culture

Verseon's mission is to develop disruptive life-science technology to advance global health. In order to achieve this, Verseon promotes a culture of innovation and development to drive its research forward and to remain at the forefront of disruptive technology. The Board monitors and assesses the culture in the Company through regular reviews, updates and board meetings.

Approved on behalf of the Board

Thomas Hecht, PhD

Chairman

June 28, 2019

COMPENSATION REPORT

COMPENSATION COMMITTEE

Along with the Board, the Compensation Committee is responsible for monitoring and providing advice on the framework and broad policy for compensation of executive management, including any compensation benefits and payments, taking into account all factors it deems necessary; determining the compensation of Executive Directors, including compensation benefits and payments; reviewing the design of all share incentive plans for approval by the Board and Stockholders; and ensuring that all provisions regarding disclosure of compensation are clear and transparent.

The Compensation Committee comprises Thomas Hecht, who acts as the Chairman of the committee, and Sangtae Kim. The Compensation Committee meets as and when necessary but at least once a year.

COMPENSATION POLICY

The Company's policy on executive compensation is intended to attract and retain high-quality executives by paying competitive compensation packages relevant to each executive's role, experience, and the external market. The packages include a basic salary, benefits, and stock options.

Directors' compensation

Directors' compensation for the years of 2018 and 2017 are summarized below.

Dr. Sangtae Kim received a Restricted Stock Award (RSA) of 150,000 shares in 2019 that carries a repurchase option by Verseon. Verseon's right to repurchase the shares lapses by a twelfth each quarter Dr. Kim serves as a board member.

The employment agreements with Mr. Prakash and Ms. Fodor provide each of them an annual salary of $0.3 million and, at the discretion of the Board, a performance bonus. The agreements contain provisions setting forth severance benefits upon termination depending on whether employment is terminated with or without cause, with or without good reason, or upon death or disability. The agreements include a proprietary information and inventions agreement relating to confidentiality of the Company's proprietary information and the assignment of inventions and intellectual property. In 2018, Mr. Prakash and Ms. Fodor were each granted 300,000 options that vest over three years. In 2017, Mr. Prakash and Ms. Fodor were each granted 400,000 options that vest over three years. These options were re-priced on May 28, 2019 pursuant to a company-wide re-pricing of options approved by the Board (Footnote 19). For the years ended December 31, 2018 and 2017, total annual salary earned by Mr. Prakash and Ms. Fodor were $0.3 million each.

DIRECTORS' INTERESTS

The Directors who held office at the date of this report had the following beneficial interests in the Common Stock of the Company at the date of this report:

Name	Number of Shares
Eniko Fodor	31,008,486
Thomas Hecht	106,894
Sangtae Kim	150,000
Adityo Prakash	31,528,281

Approved on behalf of the Compensation Committee

Thomas Hecht, PhD

Chairman, Compensation Committee

June 28, 2019

	2017			
	RSU			Cash
	Number of shares granted	Number of shares vested	Number of vested shares registered in 2018	US $'000 cash compensation
Dr Hecht	36,144	32,091	18,072	11
Dr. Karr	36,144	6,024	6,024	—
Mr. Wickersham	—	15,463	—	30
Dr. Kim	—	—	—	—

	2018			
	RSU			Cash
	Number of shares granted	Number of shares vested	Number of vested shares registered in 2019	US $'000 cash compensation
Dr Hecht	33,898	35,020	8,037	—
Dr. Karr	—	30,120	3,012	—
Mr. Wickersham	—	—	—	50
Dr. Kim	—	—	—	—

AUDIT COMMITTEE REPORT

ROLE AND RESPONSIBILITIES

The Audit Committee (the "Committee") is responsible for ensuring that the financial performance of the Company is properly monitored and reported. The Committee reviews the independence and objectivity of the external auditor each year. The Committee also reviews the adequacy of the Company's internal controls, accounting policies, and financial reporting, and provides a forum through which the Company's external auditor reports to the Non-Executive Directors.

MEMBERSHIP AND MEETINGS

The Committee comprises Thomas Hecht, who acts as the Committee Chairman, and Sangtae Kim. The Committee has specific terms of reference that deal with its authority and duties. It meets at least three times a year, with the Executive Directors and the external auditor attending by invitation.

The Board has decided that the size of the Company does not justify a dedicated internal audit function. This position will be reviewed as the Company's activities increase.

FINANCIAL REPORTING

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, interim management statements, preliminary results announcements, and any other formal announcement relating to the Company's financial performance. It will review significant financial reporting issues and judgments they may contain. The Committee shall also review summary financial statements and any financial information contained in certain other documents, such as announcements of a price-sensitive nature.

The Committee shall review and challenge where necessary:

- The Company's accounting standards and the consistency of, and any changes to, accounting policies both on a year-to-year basis and across the Company.
- The methods used to account for significant or unusual transactions where different approaches are possible.
- The appropriateness of any estimates and judgments in the Company's financial reporting, while taking into account the views of the independent auditor.
- The clarity of disclosure in the Company's financial reports and the context in which statements are made.
- All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as they relate to the audit and risk management).

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for ensuring that the Company has processes to identify, evaluate, and manage key risks. The system is designed to manage and minimize risk of failure to achieve the Company's strategic objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Directors consider that the present system of internal control is sufficient for the needs of the Company and adequately addresses the risks to which the Company is perceived to be exposed.

Approved on behalf of the Audit Committee

Thomas Hecht, PhD

Chairman, Audit Committee

June 28, 2019

DIRECTORS' RESPONSIBILITIES

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

The AIM Rules require the Directors to prepare financial statements for each financial year. Under those rules, the Directors have elected to prepare the financial statements in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

The Directors believe that the accounts should not be approved unless the Directors are satisfied that the accounts present fairly the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information;
- provide additional disclosures when compliance with the specific requirements in US GAAP are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Company's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with US GAAP and the AIM Rules. 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 responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge the financial statements, prepared in accordance with US GAAP, present fairly the assets, liabilities, financial position, and profit or loss of the Company.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF VERSEON CORPORATION

Report on the audit of the non-statutory financial statements

OPINION

In our opinion the non-statutory financial statements of Verseon Corporation (the 'company') and its subsidiaries (together the 'group'):

- present fairly, in all material respects, the state of the group's affairs as of December 31, 2018 and of its loss for the period then ended; and
- have been properly prepared in accordance with accounting principles generally accepted in the United States of America.

We have audited the non-statutory financial statements of which comprise:

- the Consolidated balance sheets;
- the Consolidated statements of operations and comprehensive loss;
- the Consolidated statements of cash flows;
- the Consolidated statements of stockholders' equity;
- the Summary of significant accounting policies; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is accounting principles generally accepted in the United States of America ("US GAAP").

BASIS FOR OPINION

We conducted our non-statutory 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 non-statutory financial statements section of our report.

We are independent of the group and company in accordance with the ethical requirements that are relevant to our audit of the non-statutory financial statements in the UK, including the Financial Reporting Council's (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.

MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

The accompanying financial statements have been prepared assuming that the group and company will continue as a going concern. As discussed in the summary of significant accounting policies part D.b in the financial statements, due to the current cash position and the material uncertainty over the future funding position, there is a material uncertainty which may cast significant and substantial doubt over the group's and company's ability to continue as a going concern. The directors are considering options for raising further finance through lending facilities and the issuance of preference shares, however this funding is not committed at the date of approval and issuance of the financial statements. This therefore raises an inherent uncertainty as it requires third parties to invest money in the future which is not committed.

In response to this, we have:

- Evaluated the design and implementation of relevant controls over the budgeting approval process.
- Considered the current facilities in place along with the repayment terms and covenants.
- Considered the current financing plans and options under consideration by management.
- Reviewed the forecasts and budgets for at least the next 12 months from the date of the approval of the financial statements.

As stated in part b of the summary of significant accounting policies, these conditions, along with the other matters as set forth in part b, indicate that a material uncertainty exists that may cast significant and substantial doubt on the group's and company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

SUMMARY OF OUR AUDIT APPROACH

The key audit matters that we identified in the current period were related to the going concern of the group and company (see Material Uncertainty relating to going concern section) and allocation of costs relating to the new premises within the VRH1 LLC subsidiary.

The materiality that we used in the current period was $0.8m which was determined based on a blend of benchmarks including total expenses, total assets and net assets.

We have performed full scope audits on all significant entities within the group; Verseon Corporation, Nirog Therapeutics LLC and VRH1 LLC. We have performed limited procedures on VCR1 PTY Ltd and BlockRules Ltd. There have been no significant changes in our audit approach to that performed in the prior period.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the non-statutory financial statements of the current period

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF VERSEON CORPORATION

(continued)

and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 non-statutory financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

In our report on the financial statements for the year ended 31 December 2017, we included two other key audit matters which are not included in our report this year: The classification of the PACE loan and the volatility assumption in the Black Scholes fair value model.

The classification of the PACE loan is not considered a key audit matter in the current year as this risk around classification was concluded in the prior year and not expected to change year on year. The volatility assumption in the Black Scholes fair value model is not considered a key audit matter in the current year. This is due to the number of grants in the year being low and therefore a significant change in the volatility rate would be required to give rise to a material misstatement.

Key audit matter	How the scope of our audit responded to the key audit matter	Key observations
Allocation of costs relating to the new premises Within the company's subsidiary, VRH1 LLC, the construction of the new building and premises was substantially completed during the period. Costs capitalised in the period amounted to $11.0m taking the total construction costs capitalised to date to $49.9m as set out in footnotes E 3 to the financial statements. Due to the amounts incurred in the period we consider the valuation and allocation of costs to represent a potential area of material risk of misstatement, resulting from non-adherence to the capitalisation criteria under US GAAP.	Our work in respect of assessing the allocation of costs capitalised on the new premises included: • Evaluated the design and implementation of controls surrounding management's review of costs capitalised; • Tested a sample of costs capitalised into Property and equipment, assessing their nature against the specific capitalisation criteria set out in US GAAP; • Tested the depreciation expense by forming an independent assessment of the building's completion and the costs associated with the completed portion of the building; • Tested a sample of costs expensed to the Consolidated statement of operations to assess whether these were allocated correctly; and • Made inquiries and obtained evidence from management over constructor contract changes in the period to assess the reasonableness of capitalised costs.	From our work performed, we are satisfied that the costs capitalised relating to the new premises are appropriate under US GAAP.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF VERSEON CORPORATION

Report on the audit of the non-statutory financial statements

OUR APPLICATION OF MATERIALITY

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

We determined materiality to be $0.8m for the group, which is determined based on a blend of multiple of benchmarks including total expenses, total assets and net assets.

Total expenses and asset related benchmarks have been chosen as the basis for materiality as this is the measure by which stakeholders and the market assess the progress of the group in its research activities.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.04m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. 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

Our audit was scoped by obtaining an understanding of the group and its environment and assessing the risks of material misstatement at the group level. All subsidiaries are managed from the company's head office in Fremont, California and subject to a common control environment. All audit work was performed by the group engagement team, which included visiting the group's US headquarters.

Based on that assessment, we have performed full scope audits for all Verseon Corporation, Nirog Therapeutics LLC and VRH LLC, which represents 99.4% of expenses, 99.5% of total assets and 99.1% of total liabilities. Our audit work on these entities was executed at levels of materiality applicable to each individual company ranging from $0.44m to $0.79m, which were lower than group materiality. For VCR1 PTY Ltd and BlockRules Ltd we performed an audit of specified balances at group materiality. At the parent entity level we also tested the consolidation process including assessment of all entries posted at that stage.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the non-statutory financial statements and our auditor's report thereon.

Our opinion on the non-statutory 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 non-statutory financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-statutory 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 non-statutory 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 respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the non-statutory 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 non-statutory financial statements, the directors are responsible for assessing the group'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 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 non-statutory 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

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF VERSEON CORPORATION

(continued)

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 non-statutory financial statements.

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

USE OF OUR REPORT

This report is made solely to the company's Directors, as a body, in accordance with our engagement letter dated 29 January 2019, and to comply with the AIM Rules for Companies. Our audit work has been undertaken so that we might state to the company's Directors 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 Directors as a body, for our audit work, for this report, or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Simon Olsen.

Deloitte LLP

Reading, United Kingdom

June 28, 2019

CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017

(US $'000, except share amounts and par values)	Note	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents	1	3,640	3,290
Short-term investments	1	3	8,327
Prepaid expenses and other current assets	2	417	1,810
Total current assets		**4,060**	**13,427**
Buildings and land, net	3	49,850	38,314
Property and equipment, net	3	1,402	2,414
Software	4	497	—
Right to use asset	5	550	—
Total assets		**56,359**	**54,155**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable		2,923	4,466
Accrued liabilities	7	1,422	1,902
Lease liability	5	214	—
Short-term debts	8	160	—
Total current liabilities		**4,719**	**6,368**
Long-term liabilities			
Lease liability	5	226	—
Long-term debts	8	26,218	2,572
Total long-term liabilities		**26,444**	**2,572**
Total liabilities		**31,163**	**8,940**
Commitments and contingencies	14		
Stockholders' equity	15		
Common stock—$0.001 par value, 300,000,000 shares authorized as of December 31, 2018 and 2017, respectively, 151,640,732 and 151,489,789 shares issued and outstanding (exclusive of stock held in Treasury of 42,917 and 42,917) as of December 31, 2018 and 2017, respectively.		152	152
Additional paid-in capital		139,283	137,560
Additional paid-in capital—Treasury		(11)	(11)
Loan receivable from stockholders		(15,282)	(15,087)
Accumulated deficit		(102,670)	(81,114)
Accumulated other comprehensive loss		—	(5)
Total stockholders' equity		**21,472**	**41,495**
Non-controlling interests in subsidiaries	6	3,724	3,720
Total equity		**25,196**	**45,215**
Total liabilities and stockholders' equity		**56,359**	**54,155**

See accompanying notes to consolidated financial statements.

These financial statements were approved by the Board of Directors June 28, 2019 and signed on its behalf by:

Adityo Prakash
Chief Executive Officer

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

For the years ended December 31, 2018 and 2017

(US $'000, except share and per share amounts)	Note	For the year ended December 31, 2018	2017
Operating expenses			
Research and development expenses		13,830	15,104
General and administrative expenses		7,997	6,329
Total operating expenses		**21,827**	**21,433**
Operating loss		**(21,827)**	**(21,433)**
Interest expense		(267)	—
Interest income		417	483
Other income		116	—
Currency exchange (loss)/gain		(4)	562
Loss before income taxes		**(21,565)**	**(20,388)**
Income tax provision	9	—	—
Net loss		**(21,565)**	**(20,388)**
Net loss attributable to non-controlling interests		9	2
Net loss attributable to Verseon Corporation		**(21, 556)**	**(20,386)**
Net loss		(21,565)	(20,388)
Unrealized gains on available-for-sale securities		5	—
Total comprehensive loss		**(21,560)**	**(20,388)**
Comprehensive loss attributable to non-controlling interests		(9)	(2)
Comprehensive loss attributable to Verseon Corporation		**(21,551)**	**(20,386)**
Net loss attributable to Verseon Corporation common stockholders per share—basic and diluted	10	(0.14)	(0.13)
Weighted-average shares of stock outstanding used in computing net loss per share—basic and diluted		151,569,699	151,436,635

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017

(US $'000)	For the year ended December 31, 2018	2017
Cash flows from operating activities		
Net loss	(21,565)	(20,388)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	1,074	506
Amortization of loan expense	206	—
Currency exchange (gain) loss from re-measurement	4	(562)
Stock-based compensation expense	1,709	897
Interest earned from loan receivable from stockholders	(314)	(313)
Changes in assets and liabilities		
Decrease/(Increase) in prepaid expenses and other current assets	1,393	(1,438)
Increase in accounts payable	356	1,311
(Decrease)/Increase in accrued liabilities	(493)	690
Net cash used in operating activities	**(17,630)**	**(19,297)**
Cash flows from investing activities		
Purchases of property and equipment	(13,583)	(19,159)
Payment of internally developed software costs	(397)	—
Purchases of available-for-sale securities investments	—	(21,545)
Maturities of available-for-sale securities investments	1,253	26,729
Sales of available-for-sale securities investments	7,076	4,133
Net cash used in investing activities	**(5,651)**	**(9,842)**
Cash flows from financing activities		
Proceeds from exercise of stock options and warrants	31	17
Proceeds from PACE financing	2,578	2,572
Proceeds from loan	21,022	—
Proceeds from lease finance	(110)	—
(Purchase)/Proceeds from issuance of equity in Nirog	(17)	9
Repayment of promissory note from stockholders	131	44
Net cash provided by financing activities	**23,635**	**2,642**
Net Increase/(decrease) in cash and cash equivalents	**354**	**(26,497)**
Effect of currency exchange rate changes	**(4)**	**562**
Cash and cash equivalents at the beginning of the year	**3,290**	**29,225**
Cash and cash equivalents at the end of the period	**3,640**	**3,290**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017 (continued)

(US $'000)	Note	For the year ended December 31, 2018	2017
Supplemental disclosure of non-cash investing and financing activities			
Purchases of property and equipment under accounts payable and accrued liabilities		755	2,641

Interest payment was $267 thousand in 2018 and $0 thousand in 2017.
No income taxes were paid in 2018 and 2017.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017

(US $'000)	Common Stock at par value	Additional paid-in capital	Treasury Stock APIC	Loan receivable from stock-holders	Accumu-lated deficit	Other compre-hensive loss	Stock-holders' equity	Non-controlling interest	Total stock-holders' equity
Balance at December 31, 2016	**151**	**136,646**	**—**	**(14,830)**	**(60,728)**	**(5)**	**61,234**	**3,713**	**64,947**
Exercise of stock options and warrants—Common Stock	*	17	—	—	—	—	17	—	17
Issuance of shares from Restricted Stock Units	1	—	—	—	—	—	1	—	1
Loans to stockholders	—	—	(11)	(257)	—	—	(268)	—	(268)
Stock-based compensation	—	897	—	—	—	—	897	—	897
Net loss	—	—	—	—	—	—	—	9	9
Net loss attributable to non-controlling interests	—	—	—	—	(20,388)	—	(20,388)	—	(20,388)
Other comprehensive gain	—	—	—	—	2	—	2	(2)	—
Balance at December 31, 2017	**152**	**137,560**	**(11)**	**(15,087)**	**(81,114)**	**(5)**	**41,495**	**3,720**	**45,215**
Exercise of stock options and warrants—Common Stock	*	31	—	—	—	—	31	—	31
Issuance of shares from Restricted Stock Units	*	—	—	—	—	—	—	—	—
Loans to stockholders	—	—	—	(195)	—	—	(195)	13	(182)
Stock-based compensation	—	1,709	—	—	—	—	1,709	—	1,709
Investment in Nirog	—	(17)	—	—	—	—	(17)	—	(17)
Net loss	—	—	—	—	(21,565)	5	(21,560)	—	(21,560)
Net loss attributable to non-controlling interests	—	—	—	—	9	—	9	(9)	—
Balance at December 31, 2018	**152**	**139,283**	**(11)**	**(15,282)**	**(102,670)**	**—**	**21,472**	**3,724**	**25,196**

* Amount less than $1,000 and insignificant after rounding.

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017 (continued)

(Shares)	Common Stock	Total shares outstanding
Balance at December 31, 2016	**151,414,659**	**151,414,659**
Exercise of stock options and warrants—Common Stock	71,065	71,065
Issuance of shares from Restricted Stock Units	46,982	46,982
Treasury Stock	(42,917)	(42,917)
Balance at December 31, 2017	**151,489,789**	**151,489,789**
Exercise of stock options and warrants—Common Stock	55,596	55,596
Issuance of shares from Restricted Stock Units	95,347	95,347
Balance at December 31, 2018	**151,640,732**	**151,640,732**

See accompanying notes to the consolidated financial statements.

A. BASIS OF PRESENTATION

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The financial information is presented in United States Dollars ("$"). All intercompany accounts and transactions have been eliminated in consolidation.

The accounting policies applied are consistent with those that were applied to the consolidated financial statements for the year ended December 31, 2017, except for Leases note l.

B. HISTORY AND ORGANIZATION OF THE COMPANY

The Company was established as Verseon LLC on July 18, 2002 in the state of Delaware. In August 2007, the Company incorporated as a general corporation in the state of Delaware. The Company is headquartered in Fremont, California. It completed its initial public offering ("IPO") on May 7, 2015 on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The Company has formed Verseon India Private Limited ("VIPL") together with a Mauritius based private equity investor. VIPL was incorporated in Andhra Pradesh, India in March 2006 to manage and maintain the Company's supercomputing cluster. The Company has since closed this operation in 2009 and is in the process of dissolving the legal entity.

Nirog Therapeutics LLC ("Nirog") was formed on September 23, 2009 as a Delaware limited liability company. Nirog was established as a vehicle to fund the research and development of the Company's anticoagulation program and the Company owned 81.2% and 79.9% of Nirog as of December 31, 2018 and 2017, respectively.

In August 2015, the Company acquired a property in Fremont, California with approximately 85,000 square feet of office and laboratory space for $8.7 million through its wholly owned subsidiary, VRH1 LLC, in the state of California. The property is nearly redeveloped and accommodates the Company's drug discovery and development operations as well as the corporate headquarters.

On October 13, 2017, VCR1, a wholly owned subsidiary of Verseon, was incorporated in Australia. VCR1 conducts clinical trials on behalf of Verseon.

On September 14, 2018, BlockRules Limited, a wholly owned subsidiary of Verseon, was incorporated in the United Kingdom. BlockRules will develop innovative technology and services to enable international companies to issue regulated securities on public blockchains, including "VIAT™," Verseon's preferred share.

On October 22, 2018, VDP1 LLC ("VDP1"), a wholly owned subsidiary of Verseon, was incorporated in the state of California. VDP1 was formed to conduct research and development in the field of use of diagnosis, treatment, and prevention of diabetic macular oedema, hereditary angioedema, and related issues.

On October 22, 2018, VDP2 LLC ("VDP2"), a wholly owned subsidiary of Verseon, was incorporated in the state of California. VDP2 was formed to conduct research and development in the field of use of diagnosis, treatment, and prevention of cancer.

These consolidated financial statements do not include any adjustments to the carrying value or classification of recorded asset amounts and carrying value or classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

C. DESCRIPTION OF BUSINESS

Verseon is an emerging pharmaceutical company that uses a proprietary platform to design and develop new drug candidates. Verseon has created a proprietary computational platform that can model molecular interactions with sufficient accuracy to drive the drug discovery process. For any disease program, the platform first generates vast numbers of novel drug-like, synthesizable compounds which are then computationally tested against a disease-causing protein to identify the best binders, i.e., drug candidates that could potentially treat the disease. These computationally designed candidates are synthesized and sent through a series of disease specific in vitro and in vivo tests to identify the best candidates for clinical testing in humans. The Verseon process is disease agnostic and can systematically yield drug candidates that cannot be found with other current methods.

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Basis of preparation and principles of consolidation:** The accompanying consolidated financial statements include the accounts of the Company, consolidated with the accounts of all of its subsidiaries and affiliates in which the Company holds a controlling financial interest as of the financial statement date. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The financial information is presented in United States Dollars ("$"). All intercompany amounts have been eliminated.

b. **Going concern:** These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business.

The Company's net assets for the years ended December 31, 2018 and 2017 were $25.2m and $45.2m respectively, of which $3.6m and $3.3m was represented by cash. The Company has net current liabilities of $4.7m compared to $6.4m in 2017. As at May 31, 2019, the cash position was $3.4m.

The Company has total borrowings of $27.3m which constitute $21.7m for the asset-backed lending facility which has $1m left to draw and $5.6m for the PACE financing which has $3.1m left to draw subject to building completion milestones. The $21.7m is repayable on July 1, 2020 and the PACE financing is payable over a 25 year period.

The asset-backed lending facility was obtained on June 13, 2018 when the Company received additional financing in the amount of $22.7 million secured on the Company's custom-built research, development, and operations facility in Fremont, California (the "Facility"). Of the total amount of the financing, $21.7 million was received with an additional $1 million available to be drawn at a future date for facilities-related expenses.

The financing is an interest-only asset-backed lending facility and is repayable after 24 months on July 1, 2020, with an option to extend for up to a further 12 months subject to both parties agreeing. The facility carries an annual interest rate of 8.0%, which is paid in monthly instalments. The agreement requires the Company to comply with certain financial covenants, which are forecast to be met for the duration of the agreement.

Subsequent to the Balance Sheet date, on March 19, 2019, $10.7m was raised through the issue of 7.7m new common shares.

The Directors have reviewed the forecasts and the current position along with the current funding plan of both committed and uncommitted facilities. The business forecast requires additional funding to be secured above the level of committed facilities for the business to continue in operation for a period of at least 12 months.

Over the next few months, further funding will be sought through additional debt funding against the property or through a sale-leaseback of the property. Furthermore, over the next 12 months the Company intends to seek additional funding through the launch of VIAT™ preferred shares using the BlockRules platform. Backed by a prospectus and with transactions recorded on the blockchain, this offering, once live, is expected to allow the Company to raise funds from a global investor base to accelerate the development of its diverse drug pipeline. However, the Directors consider the achievement of this funding as a material uncertainty that casts significant and substantial doubt on the Company's ability to continue as a going concern within one year after the approval of the financial statements. Therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The material uncertainty is due to the fact that future funding through the raising of further finance is inherently uncertain as it requires third parties to invest money in the future, which is not committed at the date of the accounts, and therefore this represents a material uncertainty. Notwithstanding this, the Directors continue to adopt the going concern basis in preparing the financial statements as they believe that this fundraising will be successful. The financial statements do not include any adjustments that would result if the going concern basis of preparation were no longer appropriate.

c. **Use of estimates:** The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ materially from those estimates.

d. **Research and development expenses:** The Company's research and development expenses include, but are not limited to, wages and related benefits, including stock-based compensation, facilities, supplies, external services, and other expenses that are directly related to

its research and development activities. Research and development costs are expensed as they occur. When payments for research and development services are made prior to the services being rendered, those amounts are recorded as prepaid assets on the consolidated balance sheet and are expensed as the services are provided. For the years ended December 31, 2018 and 2017, research and development expenses were $13.8 million and $15.1 million, respectively.

e. **Government grants:** The Company recognizes government grants as other income as receivable in the Consolidated Statements of Operations and Comprehensive Loss, with the cash flows recognized in line with the research and development expenditures as an operating activity. The Company recognized $0.1m as other income in 2018 from the Australian government for a research and development credit refund.

f. **Foreign currency:** The Company records foreign currency transaction gains and losses, realized and unrealized, and foreign exchange gains and losses due to re-measurement of monetary assets and liabilities denominated in foreign currency as currency exchange gains or losses in the consolidated statements of operations and comprehensive loss. The Company recorded a loss of $4 thousand in 2018 as compared to a gain of $0.6 million in 2017.

g. **Cash equivalents and investments:** The Company considers investments in highly liquid instruments that are purchased with original maturities of three months or less to be cash equivalents. The Company limits its concentration of risk by diversifying its investments among a variety of issuers. All investments are classified as available for sale and are recorded at fair value based on quoted prices in active markets or based upon other observable inputs, with unrealized gains and losses excluded from earnings and reported in other comprehensive loss. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses and declines in fair value that are deemed to be other than temporary are reflected in the consolidated statement of operations. The cost of securities sold is based on the specific-identification method.

h. **Fair value of financial instruments:** The carrying amounts of certain of the Company's financial instruments, including cash equivalents and short-term investments, approximate their fair value. Fair value is considered to be the price at which an asset could be exchanged or a liability transferred in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on or derived from observable market prices or other observable inputs. Where observable prices or inputs are not available, valuation models are applied. The valuation techniques involve estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

i. **Concentration of credit risk:** The Company invests in a variety of financial instruments and, by its policy, limits the amount of credit exposure with any one issuer, industry, or geographic area.

j. **Property and equipment, net:** Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives. The estimated useful lives of assets are as follows:

	Estimated useful life
Computer and peripherals	2 years
Lab equipment	5 years
Office equipment	5 years
Furniture and fittings	5 years
Building	20 years

k. **Impairment of long-lived assets:** The Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of an asset are less than its carrying amount. The impairment loss would be based on the excess of the carrying value of the impaired asset over its respective fair value. To date, the Company has not recorded any impairment losses.

l. **Leased assets:** Under ASC 842, the Company as a lessee recognizes a "right-of-use" asset and lease liabilities in the balance sheet. The right-of-use asset is measured as the lease liability plus any payments made and costs incurred by the lessee. The lease liability is measured at the present value of the lease payments not yet paid. For a lease classified as a finance lease the "right-of-use" asset is

generally depreciated on a straight-line basis over the lease term and the interest expense is recognized on an effective interest expense method, which results in the aggregate income statement charge being front-loaded. For a lease classified as an operating lease the total lease expense is recognized on a straight-line basis so that as the interest expense declines over the lease term the amortization of the right-of-use asset increases in order to provide a constant expense profile.

The Company has elected to not apply ASC 842 to short-term leases defined as one with a term of 12 months or less that does not include a purchase option that the Company is reasonably likely to exercise. For such short-term leases the Company recognizes the lease payments on a straight-line basis over the lease term.

m. **Loans:** The Company capitalizes the issuance costs incurred and amortizes them over the term of the loan. The loan balances are presented net of unamortized issuance costs.

n. **Capitalization of internally developed software costs:** The Company commences to capitalize internally developed software costs once the preliminary stage has been completed, management commits to funding the project, it is probable the project will be completed, and the software will be used for its intended function.

o. **Research and development credit refund:** The Company has an Australian subsidiary, VCR1, which conducts clinical trials. VCR1 under Australian income tax rules is able to claim research and development credit refund. The refundable credit is treated as a form of government grant and in accordance with our accounting policy is included as other income in the consolidated statements of operations.

p. **Income taxes:** Income taxes are accounted for under the asset and liability method.

i. **Current income taxes:** The Company assesses its current income tax expense based upon the taxes due in each of its operating tax jurisdictions, which are comprised of the US, Australia, the UK, and India. The Company has its Indian subsidiary, VIPL, which is dormant and not incurring any taxes. The Company is located in the United States with all of its operating expenses occurring within this tax jurisdiction. Payments of advance taxes and income taxes payable in the same tax jurisdictions are offset.

ii. **Deferred income taxes:** Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial information carrying amounts of assets and liabilities and their respective tax basis, operating loss carry forwards, and tax credits. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the Consolidated Statements of Operations in the period of change.

Uncertain tax positions are recognized using the more-likely-than-not threshold determined solely based on technical merits that the tax positions will be sustained upon examination by a taxing authority that has full knowledge of all relevant information. Tax positions that meet the recognition threshold are measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

q. **Property Assessed Clean Energy ("PACE") program:** Under the terms of the PACE agreement, the amounts received are repayable as property tax assessments are made over the 25-year term of the agreement. In the event that the property is sold, the obligation to pay such amounts transfers to the purchaser. The Company has recorded the amount received as a liability.

r. **Net loss per share**: In accordance with the provisions of ASC Topic 260, "Earnings per Share", basic loss per share is computed by dividing the net loss attributable to stockholders of the Company by the weighted average number of shares outstanding during the period. Diluted earnings per share are computed on the basis of the weighted average number of common and dilutive common equivalent shares outstanding during the period. Potentially dilutive shares are excluded when the effect would be to increase diluted earnings per share or reduce diluted losses per share. The following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect:

	Year ended December 31,	
	2018	**2017**
Options to purchase Common Stock	4,953,057	3,111,109
Warrants to purchase Common Stock	2,265,523	2,331,408
Restricted Stock Units	40,213	101,663
Total	**7,258,793**	**5,544,180**

s. Stock-based compensation: The Company accounts for stock-based compensation using the Black-Scholes option pricing model to determine the fair value of stock option and warrant grants. The stock-based compensation cost is generally recognized over the vesting period of the equity grant. For grants to employees, the cost is recognized over the requisite service period.

The Black-Scholes option-pricing model requires the use of highly subjective and complex assumptions, including the expected stock-price volatility, the expected term of the grants, risk-free interest rate, and expected dividends, which play a significant role in determining the fair value of stock-based awards. As sufficient trading history does not yet exist for our Common Stock, our estimate of the expected stock-price volatility is based on various factors including the volatility of the shares of comparable publicly traded companies in the industry. The expected term of the grants is based on the vesting date and the contractual term. The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected term of the grants. The Company has no history or expectation of paying dividends on its Common Stock.

Total stock-based compensation expense recognized associated with stock options, warrants and restricted stock units was as follows:

	Year ended December 31,	
(US $'000)	**2018**	**2017**
Research and development	762	453
General and administrative	947	444
Total	**1,709**	**897**

t. Recently issued accounting standards: In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)." The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB decided to postpone the effective date of the new standard by one year. The standard was effective for the Company in the first quarter of 2018. Since the Company has yet to report revenue, the adoption of this standard did not impact its consolidated financial statements.

The FASB issued ASU No. 2016-02, ASU No. 2018-10 and ASU No. 2018-11 "Leases (Topic 842)", which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. It requires lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The new standard will be effective for the fiscal year 2019 and annual periods and interim periods thereafter, however the Company has elected to early adopt Topic 842, refer to Note 5.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments- Credit Losses (Topic 326) and subsequent revisions issued in November 2018 under ASU No. 2018-19: Measurement of Credit Losses on Financial Instruments," which aims to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. It replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The standard is effective for the fiscal year 2020 and annual periods and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09 (ASC Topic 718), "Stock Compensation: Scope of Modification Accounting." The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The Company is required to adopt the guidance in the first quarter of fiscal year 2019. Early adoption is permitted. The Company is in the process of assessing the impact of this ASU on its consolidated interim report.

On February 14, 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become "stranded" in accumulated other comprehensive income (AOCI) as a result of the Tax Cuts and Jobs Act (TCJA). The standard is effective for the fiscal year 2019 and annual periods and interim periods thereafter.

On June 20, 2018, the FASB issued ASU No. 2018-07, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The standard is effective for the fiscal year 2019 and annual periods and interim periods thereafter.

On August 29, 2018, the FASB issued ASU No. 2018-15, new guidance on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor, i.e., a service contract. Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The standard is effective for the fiscal year 2020 and annual periods and interim periods thereafter.

Only the updates that the Company believes are relevant to its operations have been included here.

E. NOTES TO FINANCIAL INFORMATION

1. Cash, cash equivalents, and short term investments

The amortized cost and fair value of cash equivalents and investments at December 31, 2018 and 2017 were as follows:

	December 31, 2018		
(US $'000)	Amortized cost	Gross unrealized losses	Fair value
Certificate of deposits	3	—	3
Total available-for-sale securities	**3**	**—**	**3**
Classified as:			
Short-term investments			3
Total available-for-sale securities			**3**

	December 31, 2017		
(US $'000)	Amortized cost	Gross unrealized losses	Fair value
Certificate of deposits	4,080	—	4,080
Municipal securities	910	—	910
Government sponsored agencies	3,337	—	3,337
Total available-for-sale securities	**8,327**	**—**	**8,327**
Classified as:			
Short-term investments			8,327
Total available-for-sale securities			**8,327**

Cash and cash equivalents at December 31, 2018 of $3,640 thousand comprises cash of $3,640 thousand and cash equivalents of $0 thousand, as compared to cash and cash equivalents of $3,290 thousand at December 31, 2017, which comprises cash of $3,290 thousand and cash equivalents of $0 thousand.

All available-for-sale securities held as of December 31, 2018 and 2017 had contractual maturities of less than two years. Realized gains on available-for-sale securities for the year ended December 31, 2018 were $4 thousand and were recorded as interest income, as compared to the realized gains on available-for-sale securities of $163 thousand for the year ended December 31, 2017.

In accordance with the guidance of Accounting Standards Codification ("ASC") Top 820, "Fair Value Measurement", fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

In accordance with the guidance of Accounting Standards Codification ("ASC") Top 820, "Fair Value Measurement", fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows as of December 31, 2018 and 2017:

(US $'000)	December 31, 2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Certificate of deposits	—	3	—	3
Total	—	3	**—**	**3**

(US $'000)	December 31, 2017			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Certificate of deposits	—	4,080	—	4,080
Municipal bonds	—	910	—	910
Government sponsored agencies	—	3,337	—	3,337
Total	**—**	**8,327**	**—**	**8,327**

2. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of:

	December 31,	
(US $'000)	**2018**	**2017**
Prepaid expenses and other current assets:		
Equipment related deposits	15	928
Facilities related deposits	—	418
Operating lease(s) related deposits	—	56
Equipment maintenances and software licenses	92	91
Insurance premium	44	42
Prepaid interest	105	—
Research and development credit	109	—
Other	52	275
Prepaid expenses and other current assets	**417**	**1,810**

3. Fixed assets

(US $'000)	December 31, 2018	2017
Land and buildings		
Land and buildings	50,292	38,314
Less: Accumulated depreciation	(442)	—
Land and buildings, net	**49,850**	**38,314**
Property and equipment		
Lab equipment	2,029	**2,328**
Office equipment	4	**4**
Computer and peripherals	876	**867**
Furniture and fittings	226	**226**
Total	**3,135**	**3,425**
Less: Accumulated depreciation	(1,733)	(1,011)
Property and equipment, net	**1,402**	**2,414**

Depreciation expense was $1.2 million and $0.5 million for the years ended December 31, 2018 and 2017, respectively.

4. Software

(US $'000)	December 31, 2018	2017
Purchased Software	100	—
Internally developed software	397	—
Total	**497**	**—**

During 2018 initial development costs of $397 thousand for the BlockRules platform were capitalized as internally developed software.

5. Lease

In March 2018, the Company entered into a finance lease agreement with a vendor in respect of laboratory equipment. The agreement entails financing of equipment costing $0.55 million, with a 20% deposit (the right of use asset). The financing carries a fixed 5.8% interest for 2 years, with an option to purchase the equipment for $1 at the end of the lease period. The lease is determined to be a finance lease under ASC 842.

	Gross amounts payable (US $'000)
Within 1 year	234
Within 1-2 years	233
Impact of discounting	(27)
Total	**440**

6. Nirog

The consolidated financial statements presented include the financial position and performance of Nirog Therapeutics LLC ("Nirog"), a Delaware limited liability company. Nirog was established in September 2009 as a vehicle to fund the research and development of the Company's anticoagulation program. The Company has been investing in Nirog and as a consequence owned 81.2% and 79.9% of the outstanding equity of Nirog as of December 31, 2018 and 2017, respectively.

7. Accrued liabilities

Accrued liabilities consist of:

	December 31,	
(US $'000)	**2018**	**2017**
Professional services—audit	102	91
Professional services—other	11	402
Facility buildout	249	668
Legal services	245	84
Vacation accrual	665	534
Various operating accruals	150	123
Total accrued liabilities	**1,422**	**1,902**

8. Debts

In September 2017, VRH1 secured financing for energy-related upgrades to its property via the Property Assessed Clean Energy (PACE) program in the amount of up to $8.65 million subject to achievement of certain milestones. PACE is a state-legislated framework providing long-term financing for energy efficiency, renewable energy, and water conservation projects that is repaid through property assessments. PACE is non-recourse financing that is also non-accelerating and transferable upon property sale. The financing carries a fixed 6.50% interest for 25 years and the term of the property assessment is 25 years. These funds will be used for building and installation of a natural gas plant and solar power panels along with other energy efficiency upgrades, all of which will allow the Company to significantly reduce its ongoing power-related operational costs. As of December 31, 2018, based on milestones achieved to date, the Company had received a payment of $5.6 million, which is net of charges incurred of $0.4 million, which will be amortized over the life of the loan. As of December 31, 2017, based on milestones achieved to date, the Company had received a payment of $2.6 million, which is net of charges incurred of $0.4 million, which will be amortized over the life of the loan.

On June 13, 2018, VRH1 closed a $22.7 million financing (the "financing") with MCREIF SubREIT LLC (t/a Money 360) secured on the Company's custom-built research, development, and operations facility in Fremont, California (the "Facility"). Of the total amount of the financing, $21.7 million has been received on closing, with an additional $1 million available to be drawn at a future date for facilities-related expenses. Charges incurred of $0.7 million have been netted against the loan and will be amortized over the life of the loan.

The financing is an interest-only mortgage facility which carries an annual interest rate of 8.0 percent and is repayable after 24 months with an option to extend for up to a further 12 months. The documentation entered into in relation to the financing contains customary financial covenants and is based on a loan-to-value of approximately 50 percent. The proceeds of the financing will be used for Verseon's drug programs and operations.

The components of the debt are as follows:

	December 31,	
(US $'000)	**2018**	**2017**
PACE financing	5,591	3,013
Money 360	21,700	—
Total debt	27,291	3,013
Less: Unamortized debt issuance costs	(913)	(441)
Total	**26,378**	**2,572**
Less: Current portion of long-term debt	(160)	—
Total	**26,218**	**2,572**

9. Income taxes

The Company did not record a federal or state current or deferred income tax provision or benefit for the years ended December 31, 2018 and 2017 due to the losses incurred in the corresponding periods, as well as the Company's continued maintenance of a full valuation allowance against its net deferred tax assets. The Company's income tax provision of $nil in said periods represents an effective tax rate of 0%. The consolidated financial statements include in other income a grant of $116 thousand relating to research and development refund for VCR1.

At December 31, 2018, the Company had federal and state Net Operating Loss ("NOL") carry forwards of approximately $72.9 million and $74.7 million, respectively, of which $53.3 million and $74.7 million, respectively expire at various dates through 2038 if not utilized. At December 31, 2018 the Company had federal and state research credit carry forwards that totaled $2.6 million and $2.3 million, respectively, which expire at various dates through 2038 if not utilized. At December 31, 2017 the Company had federal and state research credit carry forwards that totaled $2.0 million and $1.6 million, respectively

During the year ended December 31, 2018, the only change in the balance of gross uncertain tax benefits was an increase of $0.4 million related to current year and prior year tax positions. At December 31, 2018, the balance of gross uncertain tax benefits was $1.6 million as compared to $1.2 million as of December 31, 2017. All of the unrecognized tax benefits would, if recognized, reduce the Company's annual effective tax rate. The Company currently has a full valuation allowance against its net deferred tax assets which would impact the timing of the effective tax benefit should any of the uncertain tax positions be favorably settled in the future.

The components of the Deferred Tax Assets were calculated using the federal statutory income tax rate of 21% and the state statutory income tax rate of 7% for 2018 and 2017. The Company's deferred tax assets differ from deferred income tax assets computed by applying the federal statutory income tax rate of 21% to the loss before income taxes principally due to the effect of: (i) stock based compensation expenses of $1.7 million (2017: $0.9 million) for which there is no associated income tax deduction; (ii) losses in Nirog not attributable to the Company; and (iii) the effect of losses incurred by the Company for which the potential deferred tax asset has a full valuation allowance.

The components of the deferred tax assets are as follows:

	December 31,	
(US $'000)	**2018**	**2017**
Deferred tax assets:		
Net operating loss carry forwards	20,541	15,129
R&D credit carry forwards	3,304	2,507
Depreciation and amortization—property and equipment	181	127
Accruals and reserves	186	150
Total deferred tax assets	**24,212**	**17,913**
Less: Valuation allowance	(24,212)	(17,913)
Total	**—**	**—**

Based on available objective evidence, management believes it is likely that the deferred tax assets will not be realized. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets at December 31, 2018 and 2017.

The Tax Reform Act of 1986 limits the use of net operating loss carry forwards in certain situations where changes occur in the stock ownership of the Company. In the event that the Company has had a change in ownership, utilization of net operating loss carry forwards would be limited.

The tax years 2007 to 2018 remain open to regular examination of their income tax returns and other related tax-fillings by the Internal Revenue Service and state tax authorities. There are no prior or current year tax returns under audit by tax authorities, and management is not aware of any impending audits.

The net impact of the corporate tax rate reduction resulting from the Tax Cuts and Jobs Act of 2017 was a reduction in gross deferred tax asset and associated valuation allowance of $4.2 million.

10. Net loss per share

Basic net loss per share is computed by dividing net loss attributable to Verseon Corporation by the average number of shares outstanding each period. The Company calculates the dilutive effects of both the warrants and stock options utilizing the treasury stock method. All warrants and options were anti-dilutive in all the periods presented. The weighted average shares for basic earnings per share calculation consists of the following:

	2018	2017
Weighted average shares—basic	151,569,699	151,436,635

The components of basic and diluted earnings per share were as follows:

	2018	2017
Net loss attributable to Verseon Corporation	$(21,556,000)	$(20,386,000)
Average outstanding shares		
Basic	151,569,699	151,436,635
Diluted *	151,569,699	151,436,635
Net loss per share		
Basic	$(0.14)	$(0.13)
Diluted *	$(0.14)	$(0.13)

* Diluted earnings per share are the same as basic earnings per share since the impact of the dilutive instruments on earnings per share is antidilutive.

11. Segment reporting

ASC Topic 280 “Segment reporting” establishes standards for the way that public business enterprises report information about business segments and related disclosures about products and services, geographical areas, and major customers.

The Chief Executive Officer (“CEO”) of the Company has been identified as the Chief Operating Decision Maker as defined by ASC Topic 280. The CEO of the Company allocates resources based upon information related to its one operating segment, pharmaceutical research based in the United States. Accordingly, the Company has concluded it has one reportable segment.

12. Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk principally consist of cash, cash equivalents, short-term and long-term investments.

All cash, cash equivalents, and marketable securities investments are held in the United States, Australia, and the United Kingdom as of December 31, 2018 and in the United States and United Kingdom as of December 31, 2017. All marketable securities investments as of December 31, 2018 had high quality investment grade ratings. At times, cash balances may exceed federally insured amounts and potentially subject the Company to a concentration of credit risk. To limit the credit risk, the Company invests its excess cash primarily in high quality securities such as money market funds. Management believes that no significant concentration of credit risk exists with respect to these cash and marketable securities investment balances because of its assessment of the credit worthiness and financial viability of the respective financial institutions.

13. Related-party transactions

“Loan receivable from stockholders” refers to employees and consultants of the Company who purchased their shares through the issuance of promissory notes by the Company. Total loan receivable from stockholders at December 31, 2018 and 2017 were $15.3 million and $15.1 million, respectively.

One of Nirog Therapeutics' Board members, Ronald Kass, exercised the following shares:

	2018	2017
Nirog Preferred B2 Warrants (previously granted before January 2017)	—	7,812
Verseon Common Warrants	—	6,513
Verseon Class Z Warrants	—	14,044

14. Commitments and contingencies

Rental expense for operating leases amounted to $0.2 million and $0.9 million for the years ended December 31, 2018 and 2017, respectively.

The table sets out the Company's non-cancellable operating lease commitments at each of the balance sheet dates stated, which are due within one year:

(US $'000)	2018	2017
Lease for laboratories	—	52
Total obligation	—	**52**

Legal proceedings

The Company has no ongoing material legal proceedings, nor is it aware of any potential legal proceedings.

15. Stockholder's equity

As of December 31, 2018 and 2017, the Company had 151,640,732 shares and 151,489,789 shares of Common Stock outstanding, not including 42,917 shares and 42,917 shares in treasury, for the respective years, and no shares of Preferred Stock outstanding.

2015 Equity incentive plan

In April 2015, the Company adopted the Verseon Corporation 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares, cash-based awards, and other stock-based awards to non-employee directors, officers, employees, advisors, consultants, and independent contractors. An aggregate of 15,000,000 shares of Common Stock was initially available for grant pursuant to awards under the 2015 Plan. The 2015 Plan contains a provision that provides annual increases in the number of Common Stock available for delivery pursuant to awards on each January 1st beginning January 1, 2016 and ending on (and including) January 1, 2025. Such annual increase equals to 2% of the total shares of Common Stock outstanding on December 31st of the preceding calendar year; provided that the Board decides, prior to the first day of any calendar year, that there will be no increase or a lesser increase for such calendar year. In September 2015, the plan was amended to limit the annual increase of incentive stock option shares available for grant to a maximum of 3,000,000 shares. A total of 18,876,776 shares and 17,760,825 shares were available for grant under the 2015 Plan as of December 31, 2018 and 2017, respectively.

Loan receivable from stockholders

The Company issued promissory notes to employees and consultants to purchase shares of the Company's stock and recorded them as "Loan receivable from stockholders." Total loan receivable from stockholders at December 31, 2018 and 2017 were $15.3 million and $15.1 million, respectively.

16. Restricted Stock Units (RSU)

In 2015, the Company began issuing RSU to certain employees and consultants under the 2015 Plan. The RSU are valued at the closing price of the Company's Common Stock on the date of grant. The restricted stock unit activity for the year ended December 31, 2018 and 2017 is summarized as follows:

	Shares	Weighted-average grant date fair value per share ($)
Awarded and unvested at December 31, 2016	**76,357**	**2.87**
Granted in 2017	72,288	1.66
Vested in 2017	(71,078)*	2.25
Awarded and unvested at December 31, 2017	**77,567**	**2.32**
Granted in 2018	33,897	1.77
Vested in 2018	(71,251)*	2.09
Awarded and unvested at December 31, 2018	**40,213**	**2.24**

A total of $0.1 million and $0.1 million was recorded as stock-based compensation expenses in 2018 and 2017 respectively for RSU granted. As of December 31, 2018, there was $0.1 million of unrecognized compensation expense associated with unvested RSUs, which is expected to be recognized over a weighted-average period of 0.46 years as compared to $0.2 million of unrecognized compensation expense associated with unvested RSU with a weighted-average period of 1.4 years in 2017.

*Includes 11,049 shares vested in 2018 that were admitted to AIM in January 2019 and 24,096 shares vested in 2017 that were admitted to AIM in January 2018.

17. Warrants

In April 2015, all outstanding warrants were amended to be exercisable for shares of the Company's Common Stock from Class A, Class B Preferred Stock, and Class Z Common Stock. There was no Class C Preferred Stock outstanding. Common Warrants and Common Z Warrants are exercisable into one share of Common Stock. Preferred A Warrants and Preferred B Warrants are exercisable into two shares of Common Stock.

A total of $0.1 million was recorded as stock-based compensation expenses in each of 2018 and 2017 for warrants.

A total of 21,052 Preferred A Warrants was outstanding and exercisable at December 31, 2018 at a weighted-average exercise price of $0.95 per share and with weighted-average remaining life of 3.21 years. There was no Preferred A Warrant activity in 2017 and 2018. A total of 71,302 Preferred B Warrants was outstanding and exercisable at December 31, 2018 at a weighted-average exercise price of $2.54 per share and with weighted-average remaining life of 1 years. There was no Preferred B Warrant activity in 2017 and 2018.

The following is a summary of the status of the Company's outstanding stock warrants as of December 31, 2018 and 2017 and changes that occurred during each time period:

	Number of Common Warrants	Weighted- average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2016	**1,890,713**	**3.59**	**3.3**
Exercised in 2017	(6,513)	—	—
Outstanding at December 31, 2017	1,884,200	3.59	2.3
Exercised in 2018	(16,346)	0.25	—
Cancelled in 2018	(19,539)	0.25	—
Transferred to Common Z Warrants in 2018	(30,000)	0.25	1.0
Outstanding at December 31, 2018	**1,818,315**	**3.74**	**1.4**
Exercisable at December 31, 2018	**1,780,815**	**3.73**	**1.4**

	Number of Common Z Warrants	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2016	**276,544**	**0.22**	**2.9**
Exercised in 2017	(14,044)	0.23	—
Outstanding and exercisable at December 31, 2017	**262,500**	**0.22**	**2.0**
Transferred from Common Warrants	**30,000**	**0.25**	**1.0**
Exercised in 2018	**—**	**—**	**—**
Outstanding and exercisable at December 31, 2018	**292,500**	**0.22**	**1.0**

Nirog

Nirog did not issue any warrants during the years ended December 31, 2018 and 2017. There were no Common Z Warrants or Preferred A Warrants outstanding as of December 31, 2018 and 2017.

A total of 47,447 Preferred B2 Warrants was outstanding and exercisable at December 31, 2018 at a weighted-average exercise price of $0.80 per share and with weighted-average remaining life of 0.3 years. There was no Preferred B2 Warrant activity in 2018. In 2017, 7,812 Preferred B2 Warrants were exercised with a weighted-average exercise price of $0.80, respectively. In 2017, 2,468 Preferred B2 Warrants were cancelled. A total of 102,128 Preferred C1 Warrants was outstanding and exercisable at December 31, 2018 at a weighted-average exercise price of $0.90 per share and with weighted-average remaining life of 0.3 years. There was no Preferred C1 Warrant activity in 2018 and 2017. A total of 5,250 Preferred C2 Warrants was outstanding and exercisable at December 31, 2018 at a weighted-average exercise price of $1.00 per share and with weighted-average remaining life of 0.4 years. There was no Preferred C2 Warrant activity in 2018 and 2017.

On December 31, 2017, Nirog appointed Ronald Kass as a Director. Nirog did not issue any warrants during the years ended December 31, 2018 and 2017. There were no Common Z Warrants or Preferred A Warrants outstanding as of December 31, 2018 and 2017. For the year 2018, Ronald Kass will be paid a fee of $40,000 as a Director.

18. Stock options and stock grants

Verseon

The activity in the Company's option grants during the years 2017 and 2018 are set out in the table below:

	Number of options	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2016	**1,990,825**	**2.31**	**8.7**
Granted in 2017	2,269,665	1.90	9.62
Exercised in 2017	(50,508)	0.25	—
Cancelled in 2017	(1,098,963)	2.00	—
Outstanding at December 31, 2017	**3,111,019**	**2.13**	**9.07**
Exercisable at December 31, 2017	**1,042,829**	**2.30**	**8.8**
Granted in 2018	2,206,850	1.75	9.62
Exercised in 2018	(39,250)	0.69	—
Cancelled in 2018	(325,562)	2.01	—
Outstanding at December 31, 2018	**4,953,057**	**2.32**	**8.8**
Exercisable at December 31, 2018	**2,221,556**	**2.12**	**8.4**

In 2018 and 2017, stock-based compensation expense for stock options was $1.4 million and $0.4 million, respectively. The weighted average grant date fair value of the Common Stock options granted in 2018 was $0.84 per share, as compared to $0.89 per share in 2017.

For details of the variables used by the Company in the Black-Scholes option pricing model for the years December 31, 2018 and 2017, see the following table:

	Year ended December 31,	
	2018	**2017**
Expected volatility	50%	50%
Expected dividend yields	0%	0%
Expected risk-free interest rate	2.6%–3.05%	1.95%–2.1%
Expected life of options	5–6 years	5–6 years

Nirog

The Nirog Unit Option Plan provides for both incentive and non-qualified unit options. Unit option grants generally vest over a two-year period from the unit option grant date. In December 2017, Nirog adopted a new Stock Option Plan and 5,000,000 shares were allocated. No options were issued in 2018 and 2017.

As of December 31, 2018, there were 5,154,090 unit options available for grant. As of December 31, 2017, there were 5,130,667 unit options available for grant.

19. Subsequent events

On March 19, 2019 $10.7m was raised through the issue of 7.7m new common shares.

On May 28, 2019 the Company repriced options granted to the employees under the 2015 equity incentive plan. Those employees who consented to repricing, shall have their previously vested options re-vest monthly over the first six months after issuance. Then, the unvested options will continue vesting quarterly as they did before. The new options were granted at the Fair Market Value (FMV) as of the date of the grant or at 110% of FMV as required by law.

On June 10, 2019 the Company received $770 thousand from PACE upon completion of a milestone. This is subject to the same terms and conditions of repayment as prior amounts received from PACE.

Subsequent to year end Additional Listing & Total Voting Rights have been announced with the total number of shares in circulation as at June 28, 2019 of 159,686,512.

COMPANY INFORMATION

DIRECTORS

- Thomas A. Hecht, PhD (Non-Executive Chairman)
- Sangtae Kim, PhD (Non-Executive Director)
- Adityo Prakash (Chief Executive Officer)
- Eniko Fodor (Chief Operating Officer and Chief Financial Officer)

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