Sareum

Progress with our proprietary and partnered programmes in cancer and autoimmune diseases

Sareum Holdings plc Annual Report and Accounts 2019

Validated business model

Sareum's small molecule drug discovery expertise aims to generate value and revenues by developing novel drug candidates, focused on cancer and autoimmune diseases, and licensing them to pharmaceutical and biotechnology companies. This model was successfully validated by the 2016 licence of the Chk1 inhibitor SRA737 to Sierra Oncology, Inc. The Group is also advancing novel TYK2/JAK1 inhibitor candidates through preclinical studies

Read about our progress with TYK2/JAK1 on page 3

Highlights

Operational highlights

Proprietary Selective TYK2/JAK1 inhibitors in autoimmune diseases and cancer

- Advancing two distinct molecules selected from proprietary dual Tyrosine Kinase 2 (TYK2)/Janus Kinase 1 (JAK1) programmes as potential once-daily, oral immunotherapies for autoimmune diseases (SDC-1801) and cancers (SDC-1802)
  - SDC-1801 has demonstrated excellent tolerability in toxicology studies in rodents and has progressed into longer term toxicology and dose-finding studies, which will form part of the regulatory documentation needed to apply to begin human trials
  - Additional research to refine the Company's clinical plans, including prioritisation of indications, is continuing, with detailed profiling of SDC-1801 in human tissue, and of SDC-1802 in immune-competent mouse models of cancer
  - Positive preclinical data demonstrating the anti-tumour activity of SDC-1802 via novel immunotherapeutic mechanism of action was presented at the 2019 AACR-NCI-EORTC International Cancer Conference
  - Human clinical trials are targeted to start in late 2020, subject to successful progress and financing
  - Programmes continue to attract interest from international pharmaceutical companies

SRA737 – Chk1 inhibitor in multiple cancer indications exhibiting defined genetic profiles

- In June 2019, Sierra Oncology (Sierra), the licence holder of SRA737 (an oral selective Chk1 inhibitor), announced promising preliminary efficacy and safety data at the annual meeting of the American Society of Clinical Oncology (ASCO) from two ongoing Phase 1/2 clinical trials. These trials are evaluating SRA737 across multiple indications, both as a monotherapy and as a combination, potentiated by non-cytotoxic low-dose gemcitabine (LDG)
- In June 2019, following its ASCO presentation, Sierra announced it was exploring non-dilutive strategic options to support the next stages of development of SRA737, as it had decided to prioritise the development of its Phase 3 myelofibrosis candidate, momelotinib
- The ongoing SRA737 monotherapy and SRA737+LDG combination Phase 1/2 studies continue with completion expected in the first half of 2020
- Sierra also presented evidence at international congresses highlighting the potential of combining SRA737 with other novel therapeutic approaches that are gaining traction as mainstays of targeted cancer treatment, including PARP inhibition (PARPi) and immune checkpoint blockade

Corporate update – Board of directors strengthened

- Dr Michael Owen and Clive Birch were appointed as non-executive directors in November 2018, bringing significant experience in the development of innovative biopharmaceutical products and in financial management and corporate governance

Financial highlights

- Raised £850,000 before expenses in November 2018, through a placement of 130,769,231 new ordinary shares at 0.65 pence per share, to progress internal drug development programmes as well as for working capital purposes
- Raised £781,484 before expenses through a placement and offer of 195,371,000 new ordinary shares at 0.4 pence per share that completed in July 2019, to progress the Company's TYK2/JAK1 drug development programmes as well as for working capital purposes
- Loss on ordinary activities (after taxation) of £1.45 million (2018: loss of £1.47 million)
- Cash at bank as at 30 June 2019 was £0.92 million (excluding the £0.78 million raised in the placing that completed in July 2019) (£1.54 million as at 31 December 2018; £1.38 million as at 30 June 2018)

Visit us online: www.sareum.com

Our website provides comprehensive information about our business, including the latest news on our drug development programmes and investor information.

At a glance

The year to end June 2019 has yielded good reasons to be optimistic about Sareum's prospects: solid preclinical progress was made with our internal proprietary TYK2/JAK1 programmes and the results of clinical trials with SRA737, an oral Chk1 inhibitor, continued to highlight the potential of these compounds as important and valuable new approaches to treating major disorders with unmet need.

What we do

Sareum is a specialist drug development company delivering targeted small molecule therapeutics to improve the treatment of cancer and autoimmune disease. The Group aims to generate value through licensing its candidates to international pharmaceutical and biotechnology companies at the preclinical or early clinical trials stage.

Proprietary programmes

Selective TYK2/JAK1 inhibitors in autoimmune diseases and cancer

Sareum's internal programmes focus on distinct dual TYK2/JAK1 inhibitors, which are progressing through preclinical development as therapies for autoimmune diseases (SDC-1801) and cancers (SDC-1802).

TYK2 and JAK1 are both members of the Janus Kinase (JAK) family of protein kinase enzymes with important roles in maintaining a healthy immune system. Both kinases have well-documented roles in promoting inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers.

There are currently no marketed products with specific selectivity for TYK2. However, members of the JAK family are the targets of several marketed and clinical-stage drugs in both disease areas. There is notable interest in the pharmaceutical industry for novel molecules that can selectively target TYK2 and JAK1, and particularly for those that can avoid side effects from inadvertent activity via JAK2 or JAK3.

Read more on page 7

SDC-1801 – targeting autoimmune diseases

SDC-1801 and related molecules have previously shown promising activity in autoimmune disease models, including psoriasis, rheumatoid arthritis, inflammatory bowel disease and systemic lupus erythematosus (lupus).

SDC-1801 is currently being advanced through a series of toxicology and other preclinical studies designed to form part of the regulatory documentation needed to apply to begin human trials in healthy volunteers, which are targeted to begin in 2020, subject to successful progress and financing.

Read more on page 7

SDC-1802 – targeting cancers

SDC-1802 and related TYK2/JAK1 inhibitors have previously shown encouraging anti-tumour activity in multiple cancer disease models.

Sareum's recent and current activities have been geared towards the toxicology studies designed to gain insight to the maximum tolerated doses (MTD) of SDC-1802 in rodents, as it has been doing for SDC-1801.

Read more on page 8

Aurora+FLT3 inhibitors – targeting AML and other blood cancers

While the Group focuses its research resources on completing the preclinical development of its TYK2/JAK1 programmes, it is seeking a licence partner for the Aurora+FLT3 programme and discussions are ongoing with a number of interested parties.

Read more on page 9

Partnered programme

Chk1 kinase inhibitor SRA737 – clinical update

During 2018/2019, SRA737 was investigated by Sierra in a broad clinical development programme targeting patients with genetically defined tumours of different origins that harbour genomic alterations linked to increased DNA replication stress. Such tumours are hypothesised to be more sensitive to Chk1 inhibition.

At the American Society of Clinical Oncology (ASCO) annual meeting in June 2019, Sierra presented positive preliminary clinical data from two first-in-human Phase 1/2 studies evaluating SRA737 across multiple indications, as a monotherapy and as a combination potentiated by non-cytotoxic low-dose gemcitabine (LDG).

Read more on page 8

Drug development progress this year

Progress with Chk1 kinase inhibitor SRA737

August 2018
Sierra Oncology reported that the two ongoing clinical trials of SRA737 would prioritise recruitment to enrol approximately 85 genetically defined ovarian cancer patients.

November 2018
Sierra reported substantial progress enrolling genetically selected patients into the two SRA737 clinical trials.

Sierra presented new preclinical data to support the clinical trial of SRA737 monotherapy at an international cancer conference. Sierra showed that Chk1 inhibition by SRA737 demonstrated promising efficacy in CCNE1-amplified and MYCN overexpressing models of high-grade serous ovarian cancer.

At another international cancer conference, the University of Texas MD Anderson Cancer Center and Sierra presented preclinical efficacy data for a combination of SRA737 and an immunotherapy agent in a lung cancer model.

January 2019
Dr Christian Hassig, Sierra's Chief Scientific Officer, presented preclinical data at an international cancer conference suggesting that tumours that are resistant to PARP inhibitors, including certain types of ovarian and breast cancer, can be treated by combining the PARP inhibitor with Chk1 inhibitor SRA737.

April 2019
Scientists from the MD Anderson Cancer Center and Sierra presented new preclinical data, at the American Association of Cancer Research annual meeting, demonstrating that a combination of anti-PD-L1 immunotherapy with SRA737 and LDG leads to a dramatic anti-tumour activity in a lung cancer model.

June 2019
Sierra presented positive preliminary efficacy in cancer patients from two Phase 1/2 clinical trials at the ASCO conference, including a 30% response rate in anogenital cancer patients treated with SRA737+LDG, and further anti-cancer activity across multiple indications and genetic profiles.

June 2019
Sierra reported that it is seeking non-dilutive strategic options to enable the further development of SRA737.

August 2019
In the 10-Q form associated with its Q2 2019 results statement, Sierra disclosed further information relating to the milestone payment schedule that would result from future development of SRA737. A $7.5 million payment is due on the first dosing of SRA737 in a clinical trial in the US and a $12 million payment is due upon the first dosing of a patient in a randomised Phase 2 clinical trial. Sareum is entitled to 27.5% of these payments.

Progress with TYK2/JAK1 inhibitors SDC-1801 and SDC-1802

September 2018
Sareum selects SDC-1801 as a preclinical development candidate for autoimmune diseases such as psoriasis, rheumatoid arthritis, inflammatory bowel disease and lupus.

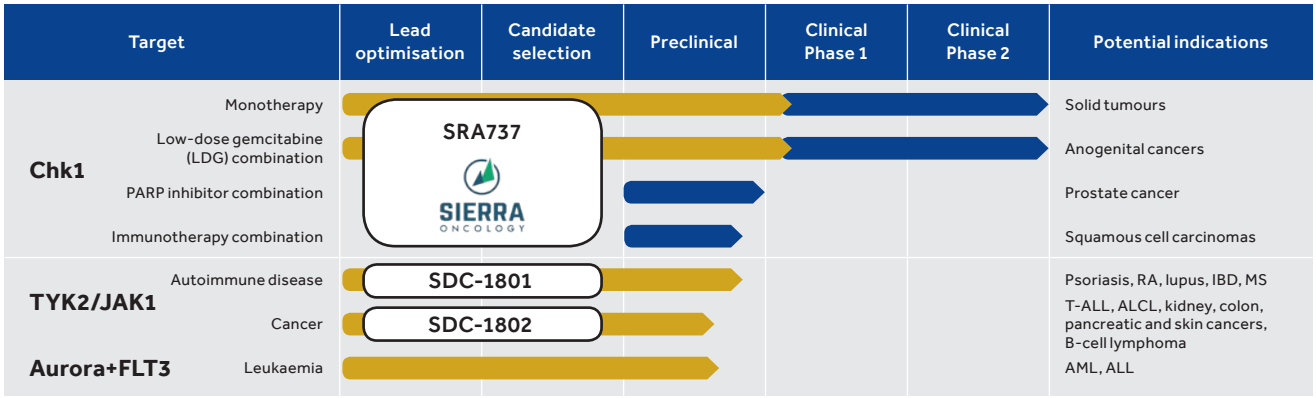
Sareum also selects SDC-1802 (formerly SAR-20351) as a preclinical development candidate as a targeted immunotherapy for certain cancers.

April 2019
Sareum's CEO, Dr Tim Mitchell, presented an update on Sareum lead programmes, including SDC-1801 and SDC-1802, at the BioTrinity conference in London.

June 2019
Sareum published an R&D update in which it reported that both SDC-1801 and SDC-1802 are progressing well in preclinical development.

October 2019
Sareum presented a poster at the AACR-NCI-EORTC conference demonstrating how SDC-1802 reduces tumour growth in many cancers via a novel immunotherapeutic mechanism of action.

See our full programme updates on page 7



RA: Rheumatoid arthritis
IBD: Inflammatory bowel disease
MS: Multiple sclerosis
T-ALL: T-cell acute lymphoblastic leukaemia
AML: Acute myeloid leukaemia
ALL: Acute lymphoblastic leukaemia

Sareum development
Sierra

Chairman's and CEO's statement

Stephen Parker DPhil Chairman **Tim Mitchell PhD** Founder and CEO

Good progress is continuing to be made with our wholly owned TYK2/JAK1 inhibitor assets and positive clinical and preclinical data has been generated with SRA737

The year to end June 2019 has yielded good reasons to be optimistic about Sareum's prospects: solid preclinical progress was made with our internal proprietary TYK2/JAK1 programmes and the results for clinical trials with SRA737, an oral Chk1 inhibitor, continued to highlight the potential of these compounds as important and valuable new approaches to treating major disorders with unmet need.

We have been very encouraged by the good progress with our TYK2/JAK1 inhibitors SDC-1801 (targeting autoimmune diseases) and SDC-1802 (targeting cancer) in formal preclinical development.

SDC-1801 is advancing as planned and has demonstrated excellent tolerability in rodent studies and has now moved into longer term toxicology and dose-finding studies, which would form part of the regulatory documentation needed to apply to begin human trials.

We were also pleased to present new preclinical data, demonstrating the anti-tumour activity of SDC-1802 (formerly SAR-20351) and novel immunotherapeutic mechanism of action in multiple cancer disease models, at the 2019 AACR-NCI-EORTC International Cancer Conference, at the end of October 2019, in Boston, US. These data provide increasing evidence that highlights TYK2/JAK1 inhibition as a new approach to cancer therapy and further supports our SDC-1802 cancer research programme.

We believe our two TYK2/JAK1 inhibitors offer a novel oral immunotherapy approach to addressing unmet needs in autoimmune diseases and cancer and the mechanism by which they act appears to be gaining increasing credibility and interest from the pharmaceutical industry. In line with our business model, we continue to engage with potential partners with a view to securing commercial licences when they reach late preclinical or early clinical stages.

With regards to SRA737, in June 2019, Sierra Oncology, the licence holder of SRA737 (an oral selective Chk1 inhibitor), announced promising preliminary efficacy and safety data at the ASCO annual meeting from two ongoing Phase 1/2 clinical trials. These trials are evaluating SRA737 across multiple cancer indications, as a monotherapy and as a combination potentiated by non-cytotoxic LDG.

These data clearly highlight the potential of SRA737 to become an attractive new therapeutic option for patients in several important and underserved cancer indications. In addition, Sierra outlined a possible route to market for SRA737 in anogenital cancer, and indicative initial human trials of SRA737 in combination with other drug modalities (PARP inhibitors and immuno-oncology drugs).

Shortly after the ASCO data were presented, Sierra announced that it was exploring non-dilutive strategic options to support the next stages of development of SRA737. Sierra made this decision on the basis that it was prioritising its resources on advancing the development of its Phase 3 myelofibrosis candidate, momelotinib.

We continue to believe, based on the promising clinical and preclinical data generated to date, that Sierra has every chance of finding a suitable solution that will enable the development of SRA737 to advance. This, in due course, would lead to Sareum receiving the milestone payments under the licensing agreement between Sierra and the CRT Pioneer Fund (CPF), the licensor of SRA737, with which Sareum has a co-investment and partnership agreement. We remain in dialogue with CPF to ensure we are informed of developments and are committed to updating shareholders and the market in general as and when the restrictions in the two agreements allow.

Sierra's decision does mean, however, that the clinical development milestone payments that Sareum could have anticipated if SRA737 development had progressed as previously planned have now been delayed until Sierra finds a solution.

Achieving two near term milestones in particular – dosing of the first patient with SRA737 in a Phase 1 trial in the USA and/or dosing of the first patient in a randomised Phase 2 trial – would generate revenue to Sareum of around $5.3 million. These previously confidential milestones were disclosed by Sierra for the first time in August 2019 and announced by the Company.

"We are very pleased with the progress of our proprietary dual TYK2/JAK1 programmes. We believe these offer a novel oral immunotherapy approach to addressing unmet needs in autoimmune diseases and cancer

The short term absence of this milestone income has led to the Company focusing its cash spend by investing in its proprietary TYK2/JAK1 inhibitor assets as efficiently as possible. The Company is therefore deploying its resources on the necessary studies that would enable these assets to enter clinical studies in late 2020 in priority indications, as well as developing a compelling data package designed to attract a development partner at an appropriate point.

We are now fully focused on these goals which would put us in a strong position to achieve a licensing agreement with a third party during the late preclinical or early clinical phases and are expected to provide significant returns to Sareum and its shareholders. The Board's confidence is based on the quality of the Company's drug candidates and the growing industry interest in the TYK2/JAK1 space.

Corporate update

During the year, Sareum took steps to improve its financial management and corporate governance as well as its ability to execute its product development and growth strategies.

In November 2018, Sareum appointed Michael Owen PhD and Clive Birch FCA as non-executive directors, bringing significant relevant experience and expertise. Dr Michael Owen and Clive Birch will also serve the Board as members of the Audit and Risk, Remuneration and Nominations Committees.

Dr Michael Owen has worked in biomedical research, and in the pharmaceutical and biotechnology industries for nearly 40 years in a number of executive, board and advisory roles. He is the co-founder and first Chief Scientific Officer of Kymab Ltd, a biopharmaceutical company based in Cambridge, UK, prior to which he worked for GlaxoSmithKline as SVP and Head of Research for Biopharmaceuticals R&D. He currently serves on the boards of several public and private companies in the UK, Europe and the US and has also advised notable specialist life science investment firms such as Abingworth LLP and the CRT Pioneer Fund.

Clive Birch is an independent non-executive director of Cambridge Innovation Capital plc and a retired partner of PricewaterhouseCoopers where, as head of the Cambridge office of PwC, his role was as an auditor and reporting accountant with an industry specialism in technology and healthcare companies. He was also part of the teams involved in fundraising and listing those clients on various markets.

Chairman's and CEO's statement continued

Financial review

Sareum ended the year to 30 June 2019 with net assets of £1.09 million (2018: £1.63 million), of which £0.92 million (2018: £1.38 million) comprised cash at bank.

The cash balance includes proceeds from a placement that raised £850,000 before expenses in November 2018, through the placement of 130,769,231 new ordinary shares at 0.65 pence per share.

It does not include the proceeds from a placement and offer that was announced in June 2019 and completed in July 2019 raising £781,484 before expenses through the placement of 195,371,000 new ordinary shares at 0.4 pence per share, as these funds had not been transferred to the Company's bank account as at the balance sheet date. These funds were received on 3 July 2019. The cash balance as at 30 September 2019 was £1.39 million.

The new funds are being deployed to progress the Company's TYK2/JAK1 drug development programmes as well as for working capital purposes.

Non-cash assets include a R&D tax credit of £228,000, the receipt of which is expected as cash in Q1 2020.

Operating expenses for the period at £1.68 million (2018: £1.71 million) have remained approximately in line with that of the previous twelve month period as the Company continues to focus its research expenditure on its TYK2 autoimmune disease and cancer programmes.

The loss on ordinary activities (after taxation) was £1.45 million (2018: £1.47 million).

"We expect to report on continued progress across our active portfolio during the coming year and beyond, which we believe will result in important value generation for our shareholders

Outlook

Good progress is continuing to be made with our wholly owned TYK2/JAK1 inhibitor assets and positive clinical and preclinical data has been generated with SRA737. However, these positives have been somewhat overshadowed by Sierra's decision, which has delayed the achievement of near term clinical milestones that would have resulted in significant revenue for Sareum.

The Board continues to believe that the data with SRA737 clearly highlight its potential to become an attractive new therapeutic option for patients in several important and underserved cancer indications. Final results from the two ongoing clinical trials are expected in 2020. This gives the Board confidence that Sierra will find a solution that will enable the development of SRA737 to advance, and, in due course, Sareum would receive the milestone payments for which it is eligible.

The Board remains in dialogue with CPF to ensure it is informed of developments and is committed to updating shareholders and the market in general as and when it can.

The Board and management are also continuing to employ rigorous capital management in the development of its internal assets and its overall business.

The Company is fully focused on advancing the preclinical development programmes with SDC-1801 and SDC-1802. These programmes are designed to enable the selection of priority indications for clinical studies so that the Company can continue to generate compelling evidence for these candidates to facilitate ongoing discussions with potential partners towards future licensing agreements at optimal valuations. The directors will continue to review the potential higher value of a later-stage licensing deal versus the requirement for any extra funding.

The Company expects to report on continued progress during the coming year and beyond, which the Board believes will demonstrate the value that is being generated from both internally and externally controlled programmes.

Dr Stephen Parker
Chairman
14 October 2019

Dr Tim Mitchell
Chief Executive Officer
14 October 2019

SDC-1801 and related molecules have previously shown promising activity in autoimmune disease models, including psoriasis, rheumatoid arthritis, inflammatory bowel disease and systemic lupus erythematosus (lupus)

Programme updates

Proprietary pipeline – selective TYK2/JAK1 inhibitors in autoimmune diseases and cancer

Sareum's internal programmes focus on distinct dual TYK2/JAK1 inhibitors, which are progressing through preclinical development as therapies for autoimmune diseases (SDC-1801) and cancers (SDC-1802).

TYK2 and JAK1 are both members of the Janus Kinase (JAK) family of protein kinase enzymes with important roles in maintaining a healthy immune system. Both kinases have well-documented roles in promoting inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers.

There are currently no marketed products with specific selectivity for TYK2. However, members of the JAK family are the targets of several marketed and clinical-stage drugs in both disease areas. There is notable interest in the pharmaceutical industry for novel molecules that can selectively target TYK2 and JAK1, and particularly for those that can avoid side effects from inadvertent activity via JAK2 or JAK3.

We remain optimistic about both programmes given they have progressed well in preclinical development since formal candidate selection in September 2018, building on the compelling efficacy seen in autoimmune and cancer models, the potential for once-daily oral dosing and good early safety profiles.

Additional research to refine the Group's clinical plans, including prioritisation of indications, is underway for clinical trials, which are targeted to start in late 2020, subject to successful progress and financing.

SDC-1801 – targeting autoimmune diseases

SDC-1801 and related molecules have previously shown promising activity in autoimmune disease models, including psoriasis, rheumatoid arthritis, inflammatory bowel disease and systemic lupus erythematosus (lupus).

SDC-1801 is currently being advanced through a series of toxicology and other preclinical studies designed to form part of the regulatory documentation needed to apply to begin human trials in healthy volunteers, which are targeted to begin in 2020, subject to successful progress and financing.

The compound has demonstrated excellent tolerability in toxicology studies in rodents (as reported in June 2019), with doses up to 30 times the level that displayed good responses in efficacy studies. Dosing in two short term dose range finding studies has now completed and laboratory analysis of the data obtained is ongoing. These studies have been designed to identify low, medium and high doses to use in specific longer term toxicology studies.

In addition, a short and robust manufacturing route has been developed for SDC-1801 to provide the active ingredient for both preclinical and clinical studies and the product required for the next round of toxicology studies has been delivered. Research is ongoing to find the most reliable manufacturing process for the best solid form of the molecule to progress into clinical studies.

Sareum has a co-development agreement with SRI International (Menlo Park, CA, US), a non-profit scientific research institute, to develop TYK2 inhibitors in autoimmune diseases. SRI, working under a US Department of Defense (DoD) grant, has completed a preclinical study using Sareum TYK2/JAK1 inhibitors in lupus disease models and the final report from this study is expected to be made public by the DoD in the near future.

Sareum retains commercialisation rights for these and other TYK2 inhibitors with profiles optimised for oncology and immuno-oncology applications.

Chairman's and CEO's statement continued

Programme updates continued

Proprietary pipeline – selective TYK2/JAK1 inhibitors in autoimmune diseases and cancer continued

SDC-1802 – targeting cancers

SDC-1802 and related TYK2/JAK1 inhibitors have previously shown encouraging anti-tumour activity in multiple cancer disease models.

Sareum presented new preclinical data supporting these findings at the American Association for Cancer Research (AACR) National Cancer Institute (NCI) European Organisation for Research and Treatment of Cancer (EORTC) International Conference held on 26-30 October 2019 in Boston, US.

The presentation described how SDC-1802 (formerly SAR-20351) significantly reduces tumour growth in disease models of cancer of the pancreas, colon, skin and kidney, plus B-cell lymphoma. The studies also determined that SDC-1802 induces this anti-cancer activity through a novel immunotherapeutic mechanism of action that stimulates the local immune system to attack cancer cells.

These positive results were seen when SDC-1802 was dosed orally, as a monotherapy or in combination with chemotherapy. They provide increasing evidence that TYK2/JAK1 inhibition could become a new approach to cancer therapy and further support the SDC-1802 cancer research programme.

Sareum's recent and current activities have been geared towards the toxicology studies designed to gain insight to the maximum tolerated doses (MTD) of SDC-1802 in rodents, as it has been doing for SDC-1801.

The Company has completed formulation studies to maximise the amount of compound delivered following oral dosing of SDC-1802. The chemistry to produce SDC-1802; uses the same sequence of reactions as those utilised in the production of SDC-1801. Formal optimisation of this process has not yet been initiated for SDC-1802, though, the compound has already been prepared on a >100g scale, meaning the Company has enough material in hand to initiate short term toxicology studies in rodents.

> **SDC-1802 and related TYK2/JAK1 inhibitors have previously shown encouraging anti-tumour activity in multiple cancer disease models**

Sareum intends to publish further research from its TYK2/JAK1 programmes at conferences and in peer-reviewed publications in the future to support its ongoing business development activities with potential partners.

The Group's stated value-generating strategy is to secure commercial licences when its assets reach late preclinical or early clinical stages and management is engaged in initial discussions with several potential partners.

Licensed programme – SRA737: a selective Chk1 inhibitor

SRA737 is a potent, highly selective, orally bioavailable small molecule inhibitor of Checkpoint Kinase 1 (Chk1), a key regulator of important cell cycle checkpoints and central mediator of the DNA Damage Response (DDR) network.

SRA737 was discovered and initially developed by scientists at The Institute of Cancer Research (London, UK) in collaboration with Sareum, and with funding from Cancer Research UK (CRUK). The CRT Pioneer Fund, which is dedicated to financing assets and companies including projects derived from CRUK's oncology drug discovery portfolio, licensed SRA737 to the Nasdaq-listed company Sierra Oncology in 2016. In return, CPF is eligible for up to $328.5 million, including an upfront payment of $7 million and $321.5 million payable upon the achievement of certain developmental, regulatory and commercial milestones, plus royalties on future sales.

CPF has a co-investment and partnership agreement with Sareum. Under this agreement Sareum is eligible to receive 27.5% of all payments made to CPF as SRA737 advances, equivalent to up to a total of $88 million in future milestone payments, plus sales royalties.

> **The positive clinical results presented from combining SRA737 with advanced cancer therapies and the exciting preclinical findings presented throughout the year suggest that SRA737 has significant value**

SRA737 – clinical update

During 2018/2019, SRA737 was investigated by Sierra in a broad clinical development programme targeting patients with genetically defined tumours of different origins that harbour genomic alterations linked to increased DNA replication stress. Such tumours are hypothesised to be more sensitive to Chk1 inhibition.

At the ASCO annual meeting in June 2019, Sierra presented positive preliminary clinical data from two first-in-human Phase 1/2 studies evaluating SRA737 across multiple indications, as a monotherapy and as a combination potentiated by non-cytotoxic LDG.

The studies delivered highly encouraging results:

- SRA737 demonstrated notable anti-cancer activity in multiple indications including a 30% overall response rate (ORR) in evaluable patients with anogenital cancer treated with SRA737+LDG.
- Anogenital cancer is an indication for which the second-line metastatic setting represents a significant unmet medical need, with there being no approved therapies and a very poor life expectancy for patients.
- Additionally, evaluable subjects whose tumours harboured distinct genetic profiles (RAS wild type with FA/BRCA gene network mutations) displayed favourable outcomes across multiple indications, with an ORR of 25%.

SRA737 – preclinical opportunities

Sierra also presented evidence highlighting the potential of combining SRA737 with other novel therapeutic approaches that are gaining traction as mainstays of targeted cancer treatment. These include PARP inhibition (PARPi) and immune checkpoint blockade.

- At the DDR Therapeutics Summit in January 2019, Sierra noted promising data demonstrating that Chk1 inhibition, with agents such as SRA737, could address the significant and growing clinical problem of acquired resistance to PARP inhibitors.
- At the American Association of Cancer Research (AACR) conference in April 2019, Sierra showed that SRA737+LDG induced significant anti-tumour activity when combined with anti-PD-L1 immunotherapy. These data demonstrated durable tumour regressions in a mouse model of small cell lung cancer (SCLC). These data were subsequently published in the *Journal of Thoracic Oncology*, alongside additional data showing substantial additive improvements in efficacy when SRA737 was combined with anti-PD-1 immunotherapy in mouse models of colon, bladder and pancreatic cancer.
- At an analysts' meeting held during ASCO, Sierra presented similarly striking data with the SRA737+LDG plus anti-PD-L1 combination in a mouse model of colorectal cancer, with 80% regressions observed following three treatment cycles.

> **"The achievement of two near term milestones, being the dosing of the first patient with SRA737 in a Phase 1 trial in the US and/or dosing of the first patient in a randomised Phase 2 trial, would generate revenue to Sareum of around $5.3 million**

SRA737 – current status

The development work that Sierra has conducted has positioned SRA737 as potentially one of the leading clinical assets targeting the DDR pathway, with clinical safety and efficacy of SRA737+/-LDG supporting stand-alone development and compelling preclinical data supporting its use in combination with both PARP inhibitors (PARPi) and immuno-oncology (IO) therapy such as immune checkpoint blockade.

Sierra had stated that future studies were being planned to investigate SRA737 further in all of these areas. However, in June 2019, a few days after its ASCO presentation, Sierra announced it was exploring non-dilutive strategic options to support the next stages of development of SRA737, as it had decided to prioritise the development of its Phase 3 myelofibrosis candidate, momelotinib.

The ongoing SRA737 monotherapy and SRA737+LDG combination Phase 1/2 studies are expected to run through to completion, currently anticipated in the first half of 2020 (clinicaltrials.gov database).

Sareum continues to believe that, based on the promising clinical and preclinical data generated to date, Sierra has every chance of finding a suitable solution that will enable it to advance the development of SRA737. However, Sierra's decision does mean that the clinical development milestone payments that Sareum could have anticipated if SRA737 development had progressed as previously planned have now been delayed until Sierra finds a solution.

In the future, the achievement of two near term milestones in particular – dosing of the first patient with SRA737 in a Phase 1 trial in the US and/or dosing of the first patient in a randomised Phase 2 trial – will generate revenue to Sareum of around $5.3 million. These previously confidential milestones were disclosed by Sierra for the first time in August 2019.

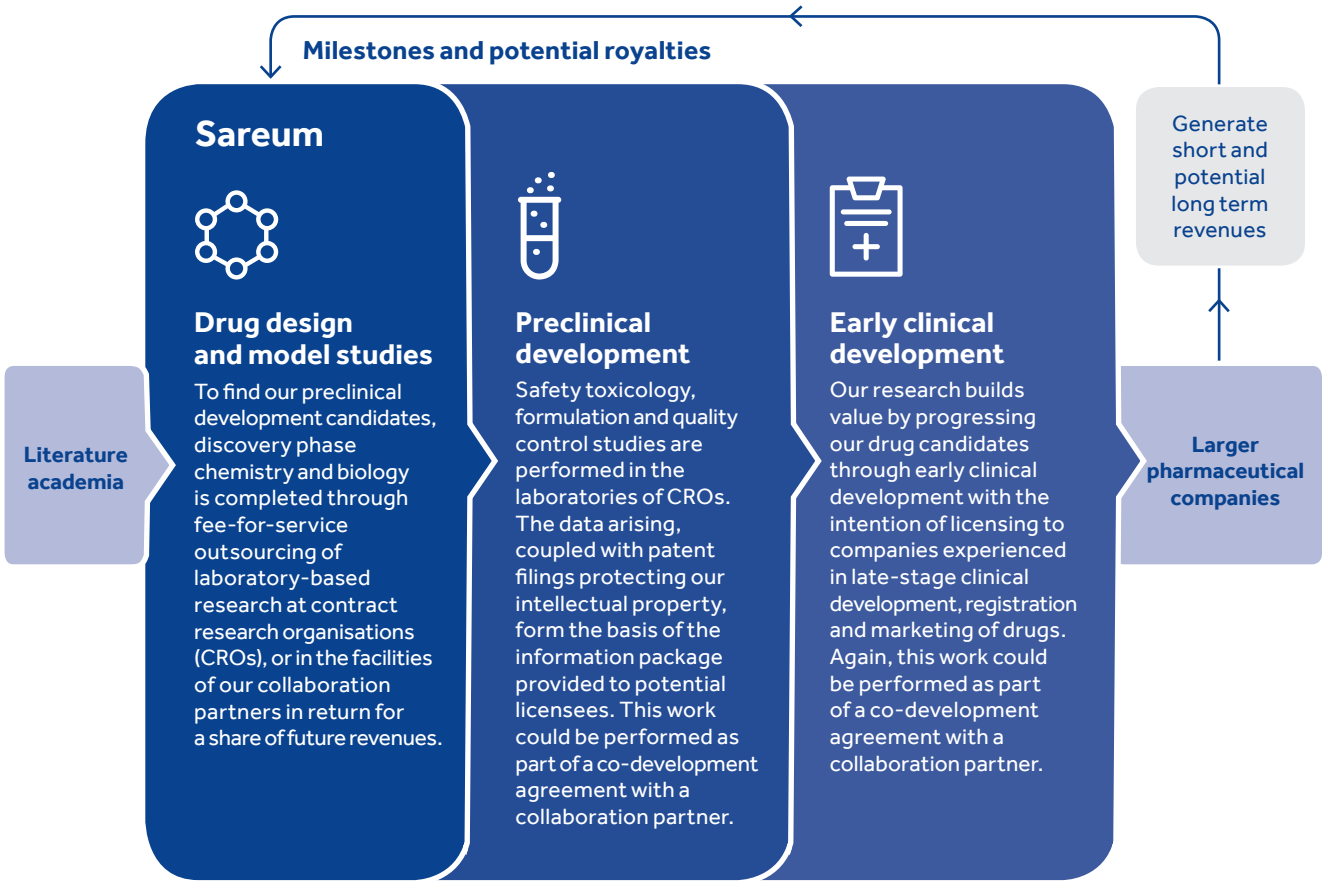
Sareum remains in dialogue with CPF to ensure it is informed of developments and is committed to updating shareholders and the market in general as and when it can.

Aurora+FLT3 inhibitors

While the Group focuses its research resources on completing the preclinical development of its TYK2/JAK1 programmes, it is seeking a licence partner for the Aurora+FLT3 programme and discussions are ongoing with a number of interested parties.

Business model

Sareum operates a lean business model to deliver the most productive return for our research spend. Our research builds value by progressing our drug candidates through early clinical development and generates revenues by licensing them to pharmaceutical company partners.



Our key strengths

Drug development expertise

The executive directors, Dr Tim Mitchell (CEO) and Dr John Reader (CSO), have over 50 years' drug development experience between them. This has been key in the development of potentially best-in-class drug candidates SRA737, SDC-1801 and SDC-1802. Sareum's drug discovery platform, SKIL® (Sareum Kinase Inhibitor Library), has the ability to identify new compounds targeting kinases for use against cancer, autoimmune disease and other therapeutic areas.

Outsourced research model

Sareum operates an outsourced research model. Its laboratory-based research is undertaken via a worldwide network of collaborators and research providers. This reduces the high capital cost of running in-house laboratories, minimises ongoing development risks and provides access to best-in-class expertise for its programmes.

Co-development collaborations

Sareum's co-development collaborations with world-class research institutes provide access to expertise and the ability to progress several programmes simultaneously whilst reducing research costs. Typically, Sareum offsets a share of future licence income and ongoing royalties in exchange for research funding, use of facilities and access to expertise.

Our markets

Sareum discovers and develops innovative drug candidates aimed at cancers and autoimmune diseases. Our drug development programmes aim to improve outcomes for patients with serious medical conditions and where current therapies are inadequate.

Licensing our products

Once we have established the efficacy and safety of our drug candidates in preclinical or early clinical studies, we seek to license the products to larger pharmaceutical and biotechnology companies.

These organisations are ideally suited to conduct the later-stage clinical trials and marketing activities required to successfully commercialise a drug. The licence deals typically include an upfront payment and milestone payments for successful achievement of specific clinical, regulatory and sales milestones, plus royalty payments on drug sales. Increasingly larger licence deal payments are achieved when drug candidates are licensed at later stages of their development.

Larger pharmaceutical companies seek in-licensing deals to strengthen their existing product portfolios. In-licensing can accelerate development timelines, fill gaps in development pipelines and enable access to novel products. Over half of the late-stage clinical pipeline compounds of pharmaceutical companies are now externally sourced.*

* McKinsey & Co, 2010.

Outlook

The Board continues to believe that the data for SRA737 clearly highlight its potential to become an attractive new therapeutic option for patients in several important and underserved cancer indications. Final results from the two ongoing clinical trials are expected in 2020. This gives the Board confidence that Sierra will find a solution that will enable the development of SRA737 to advance, and, in due course, Sareum would receive the milestone payments for which it is eligible.

The Group is fully focused on advancing the preclinical development programmes with SDC-1801 and SDC-1802. These programmes are designed to enable the selection of priority indications for clinical studies, which are targeted to start in late 2020, subject to successful progress and financing.

Our strategic goal

The Group's stated value-generating strategy is to secure commercial licences when its assets reach late preclinical or early clinical stages and management is engaged in initial discussions with several potential partners.

Our strategy

Sareum's strategy is to develop novel, targeted drug candidates to late preclinical or early clinical stages before licensing these products to pharmaceutical company partners to continue their development towards and onto the market.

1 Pursue multiple programmes

- Increase potential success rate
- Mitigate development risk

2019 updates

We have been very encouraged by the good progress with our TYK2/JAK1 inhibitors SDC-1801 (targeting autoimmune diseases) and SDC-1802 (targeting cancer) in formal preclinical development.

Additional research to refine the Group's clinical plans, including prioritisation of indications, is continuing, with detailed profiling of SDC-1801 in human tissue; and of SDC-1802 in immune-competent mouse models of cancer.

Sierra announced promising preliminary efficacy and safety data at the ASCO annual meeting from two ongoing Phase 1/2 clinical trials evaluating SRA737 across multiple indications, both as a monotherapy and as a combination, potentiated by non-cytotoxic LDG.

2020 objectives

To continue additional research to refine the Group's plans for SDC-1801 and SDC-1802, including prioritisation of indications and clinical trials, which are targeted to start in late 2020, subject to successful progress and financing.

We continue to believe, based on the promising clinical and preclinical data generated to date, that Sierra has every chance of finding a suitable solution that will enable the development of SRA737 to advance.

2 Seek collaboration partners

- Spread financial cost and risk development and commercialisation expertise
- Access specialist development expertise

2019 updates

Co-development partner, SRI International, has completed a preclinical study using Sareum TYK2/JAK1 inhibitors in lupus disease models working under a US Department of Defense (DoD) grant, and the final report from this study is expected to be made public by the DoD in the near future.

2020 objectives

We will continue to explore the potential of engaging collaboration partners to progress our internal research programmes.

Key performance indicators (KPIs)

The directors use the following KPIs as a measure of the Group's performance:

R&D spend

£0.94 million

2019	**£0.94 million**
2018	£1.04 million
2017	£1.00 million

Sareum undertakes research and development on its cancer and autoimmune research programmes. The investment in R&D in 2019 has shown a modest decrease over the prior year, as the Group focused its cash spend by investing in its proprietary TYK2/JAK1 inhibitor assets as efficiently as possible in the absence of further milestone payments in respect of SAR737.

3 Develop programmes to preclinical/early clinical development

- Minimise ongoing development risk
- Move up the value chain
- Potential for higher deal values

2019 updates

SDC-1801 has demonstrated excellent tolerability in toxicology studies in rodents and has progressed into longer term toxicology and dose-finding studies, which would form part of the regulatory documentation needed to apply to begin human trials.

The Group has completed formulation studies to maximise the amount of compound delivered following oral dosing of SDC-1802, and current activities have been geared towards the toxicology studies designed to gain insight into the maximum tolerated doses (MTD) of SDC-1802 in rodents.

SRA737 demonstrated notable anti-cancer activity in multiple indications including a 30% overall response rate (ORR) in evaluable patients with anogenital cancer treated with SRA737+LDG.

2020 objectives

Human clinical trials for at least one of its TYK2/JAK1 inhibitor programmes are targeted to start in late 2020, subject to successful progress and financing.

The ongoing SRA737 monotherapy and SRA737+LDG combination Phase 1/2 studies are expected to complete in the first half of 2020.

4 License drug candidates to pharmaceutical company partners

- Generate short and potential long term revenues through upfront and milestone payments and royalties
- Validate research and define value of assets
- Progress drug candidates through clinical development and commercialisation

2019 updates

TYK2/JAK1 and Aurora+FLT3 programmes continue to attract interest from international pharmaceutical companies.

Sierra announced it was exploring non-dilutive strategic options to support the next stages of development of SRA737, as it had decided to prioritise the development of its Phase 3 myelofibrosis candidate, momelotinib.

2020 objectives

We continue our discussions with potential licence partners with respect to our TYK2/JAK1 and Aurora+FLT3 programmes.

We remain optimistic that Sierra will be successful in finding a non-dilutive solution that will enable the development of SRA737 to progress. The advancement of SRA737 in its clinical studies could result in Sareum receiving significant milestone payments in due course.

Profit/(loss) on ordinary activities

£(1.45) million

2019	**£(1.45) million**
2018	£(1.47) million
2017	£0.40 million

The Company's management aims to minimise Group overheads through a low cost base and a lean operating model. In contrast to 2017, where a maiden profit resulted from payments received from the Chk1 licence agreement with Sierra, no further licence payments were received and thus a loss is reported for the period.

Cash at bank

£0.92 million

2019	**£0.92 million**
2018	£1.38 million
2017	£2.30 million

Sareum requires cash for working capital purposes and to advance its development programmes. The cash balance for 2019 includes proceeds from a placement that raised £850,000 before expenses in November 2018, but does not include the proceeds from a placement and offer that was announced in June 2019 and completed in July 2019 raising £781,484 before expenses. Additionally, the Company expects to receive a R&D cash tax credit of £228,000 by Q1 2020.

Risk management and principal risks

Principal risks and uncertainties

The Board has primary responsibility for ensuring the Group's risks are properly understood, quantified and appropriately managed, though it looks to the Audit and Risk Committee to provide recommendations on risk management processes and controls. The Audit and Risk Committee and the Board review the Group's risk register. The actions proposed and taken by management to mitigate risk and to reduce the likelihood and impact of the risks faced by the business are considered regularly and are deemed satisfactory.

The Audit and Risk Committee is chaired by non-executive director Clive Birch, who joined the Board in November 2018. Clive is a retired partner of PwC where his role was that of an auditor and reporting accountant with an industry specialism in early stage technology and healthcare companies.

The principal risks and uncertainties of the business and how they are managed are set out in the table below.

Risk management

The Board has established a risk register relating to the Group's business. At least twice a year, it meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical.

Risk management framework

Key: Risk has decreased | Risk has increased | No change in risk

Risk	Description and mitigation	Risk change	Link to strategy
Financial	The principal financial risks are the ability to raise sufficient funds to support the Company through to profitability and failure to secure licensing agreements. The Group's low cost base ensures that funds are used in the most efficient way. Sareum has historically raised the majority of its funds from private client broker and wealth management networks. The Chk1 licence deal demonstrates the ability for licence deals to be achieved.	We believe the decision by Sierra to seek strategic partners for SRA737 will delay the receipt of future milestone payments and thus increase our financial risk.	**1, 2, 3, 4**
Research and development	There are a number of risks in developing drug candidates due to a long and complex development process. Any programme must undergo extensive research to get to preclinical or clinical stage. This process takes several years and is very costly. R&D programmes can fail at any point. We undertake extensive early research and create a dossier of information that enables us and our advisers to evaluate the potential of a candidate before we seek to progress to preclinical or clinical phases. We also seek collaboration partners whose own due diligence reaffirms our assessment of a candidate's potential.	We believe the success of SRA737 in Phase 2 studies and the progress of SDC-1801 and SDC-1802 in preclinical development have reduced our R&D risk.	**1, 2, 3, 4**

Risk	Description and mitigation	Risk change	Link to strategy
Intellectual property	Our ability to stop others exploiting our intellectual property, without first obtaining a licence, is critical to our long term success. Therefore, we file patent applications in the patent offices of the major commercial territories. To obtain patent protection, our inventions must be considered novel, inventive and useful. However, some, or all, of the patent offices may reject or seek to modify our patent applications. Intellectual property protection is fundamental to our strategy of developing novel drug candidates and underpins our R&D programmes and we invest appropriately in this area. We are exploiting our SKIL® platform, which already has a strong patent position through a number of granted and pending applications. IP considerations form a crucial part of due diligence when we are assessing in-licensing opportunities.	— No change in risk.	**1, 3, 4**
Collaboration	Working with third parties carries a risk of loss of control on progress and can lead to research delays. This can increase Sareum's own financial commitment as a result of continued spend on fixed costs during a delay and potential additional financial contributions required in order to progress a programme. We work closely with our partners to anticipate and plan around any likely delays. Collaboration contracts clearly outline responsibilities and key milestones as well as cost, licensing and revenue sharing.	— No change in risk.	**1, 2**
Competition	There always remains the possibility that a similar drug is being developed by a competitor that demonstrates greater efficacy or a better safety profile. Alternatively, a similar drug in development may conclude a licensing deal or reach a later stage of development before we are able to, thus reducing the likelihood of Sareum securing a licensing agreement. The management and advisory boards gather as much information as possible on competitive products and programmes. Progress and key milestones are monitored to understand how these may affect our own programmes. Sareum also pursues more than one development programme in order to mitigate the overall risk to the Group.	⌄ We believe there is a decreased risk from competition since Eli Lilly & Co has ceased further development of its Chk1 inhibitor, prexasertib.	**1, 3, 4**

Governance

Directors

Stephen Parker DPhil
Non-executive Chairman

Key skills
Dr Stephen Parker, aged 61, has a career in the healthcare and pharma sector that spans over 30 years, including 10 years in the City in advisory roles. He has sector corporate finance experience having been an investment banker focusing on pharma and biotechnology with Barings, Warburg and Apax Partners and has previously held roles as a partner at Celtic Pharma and Chief Financial Officer of Oxford GlycoSciences. Stephen is also currently a non-executive director at MGC Pharma.

Committee responsibilities
Audit and Risk, Remuneration, Nominations (Chair)

Other appointments
Stephen is a non-executive director of MGC Pharma, Eternans and a director of sp^2 Consulting Limited.

Tim Mitchell PhD
Founder and CEO

Key skills
Dr Tim Mitchell, aged 59, has over 30 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry Ltd and his roles at Millennium Pharmaceuticals Research and Development Ltd as a member of the management team and in forming the integrated Structure-Based Discovery department. As director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of protein structure and high throughput chemical synthesis for Millennium as well as for local computational chemistry, informatics and automation capabilities. Prior to that, he was director of Computational Chemistry at Cambridge Discovery Chemistry Ltd and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in computational chemistry and a BSc in chemistry.

Committee responsibilities
None

Other appointments
None

John Reader PhD
Founder and CSO

Key skills
Dr John Reader, aged 52, has over 25 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry Ltd in the provision of high throughput chemistry services to external and internal clients. John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug discovery process, with an excellent track record of delivering successful projects to clients and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in chemistry and a BSc in applied chemistry.

Committee responsibilities
None

Other appointments
None

Michael Owen PhD
Non-executive director

Key skills
Michael Owen, aged 67, has worked in biomedical research, and in the pharmaceutical and biotechnology industries for nearly 40 years. He is the co-founder and first CSO of Kymab Ltd, a biopharmaceutical company based in Cambridge, UK, prior to which he worked for GSK where he was SVP and Head of Research for Biopharmaceuticals R&D. In addition, to the Board roles listed below, Michael is Chairman of ReNeuron's and Avacta's scientific advisory boards, an adviser to Abingworth LLP and was until recently an adviser to the CRT Pioneer Fund. Michael received a MA from Oxford University and a PhD from Cambridge University, and is an elected member of the European Molecular Biology Organisation and a Fellow of the Academy of Medical Sciences.

Committee responsibilities
Remuneration (Chair), Audit and Risk, Nominations

Other appointments
Michael is a non-executive director of Avacta Group plc, ReNeuron plc, GammaDelta Therapeutics, Zealand Pharma A/S, Iskuda Therapeutics Ltd and The Club Cricket Organisation Ltd and the Chairman of Ossianix Inc.

Clive Birch
Non-executive director

Key skills
Clive Birch, aged 65, is an independent non-executive director of Cambridge Innovation Capital plc, a Cambridge-based builder of technology and healthcare companies. He is a retired partner of PricewaterhouseCoopers where his role was that of an auditor and reporting accountant with an industry specialism in early stage technology and healthcare companies. He was also part of the teams involved in fundraising and listing those clients on various markets. Clive was also partner in charge of PwC's Cambridge office for 15 years up to 2010, during which time he was responsible for all aspects of that stand-alone business. Clive is a Governor of Birkbeck College, part of London University.

Committee responsibilities
Audit and Risk (Chair), Remuneration, Nominations

Other appointments
Clive is a director of Pigeon Land Limited, Pigeon Land 2 Limited, Pigeon (Shelford) Limited, Pigeon (Uplands & Heigham) Limited and Chrib Ltd and a non-executive director of Cambridge Innovation Capital plc.

Group strategic report

for the year ended 30 June 2019

The directors present their Strategic report of the Company and the Group for the year ended 30 June 2019.

Principal activities

The principal activities of the Company in the year under review were those of a holding company. The principal activity of the Group is the discovery and development of new therapeutic drugs by a combination of skills in biology, computational chemistry and medicinal chemistry.

Review of business

The loss for the year was £1,452,465 and at 30 June 2019 cash and cash equivalents amounted to £919,343.

The Group raised a total of £850,000, before expenses, by way of a placing in November 2018. The funds raised will be used to progress the Group's drug development programmes as well as for working capital purposes.

Throughout the period under review the Group continued to develop its drug discovery programmes using outsourced biology and chemistry resources as well as exploring commercial opportunities with potential partners. In the future the Group will continue to build value from its in-house research and development by seeking to advance and commercialise its drug discovery programmes.

In 2016 the Company announced that its co-investment partner, the CRT Pioneer Fund, had licensed the rights to the Chk1 project to Sierra Oncology, Inc. Under the terms of the agreement an upfront payment of $7.0 million and an additional fee of $2.0 million (following the successful transfer of the two ongoing Phase 1 clinical trials to Sierra) were received by the co-investment partner. Additional payments of up to $319.5 million may become payable upon achievement of certain milestones with additional royalties to be received on the net sales of any product successfully developed. Sareum is entitled to receive 27.5% of these payments.

Principal risks and uncertainties

The principal risks facing the Group are the following:

- the drug discovery programmes undertaken may fail due to fundamental scientific uncertainty;
- the Group may not complete sufficient commercial partnerships to create a sustainable business;
- it may not be possible to raise sufficient funding to support the Group through to sustained profitability; and
- the directors acknowledge that there is uncertainty concerning the outcome of the UK's negotiations to exit the EU but do not currently consider that this represents a significant risk to the Group's prospects.

The directors address these uncertainties by reviewing reports on scientific progress, business development and financial status at the monthly Board meetings and implementing alternative plans to reduce the risks if these are considered necessary.

Key performance indicators

The directors consider cash and spending on research and development to be the Group's key performance indicators. A budget is approved by the Board at the beginning of each financial year and performance is regularly monitored against budget with significant variances investigated.

Future outlook

In July 2019 the Group completed a placing to raise £781,484 before expenses.

In addition to potential revenue from the Chk1 project, the Group will continue to develop its oncology and autoimmune assets arising from its TYK2/JAK1 discovery programme. The TYK2/JAK1 inhibitor development candidate, SDC-1801, targeting autoimmune diseases will be progressed and the TYK2/JAK1 inhibitor development candidate SDC-1802 will be developed as a cancer therapeutic. Commercially, significant licensing deals will be sought to realise the high value inherent in the Group's IP.

On behalf of the Board:

T Bunn FCMA
Secretary
14 October 2019

Report of the directors

for the year ended 30 June 2019

The directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2019.

Directors

The directors shown below have held office during the whole of the period from 1 July 2018 to the date of this report.

T Mitchell PhD

J Reader PhD

S Parker DPhil

Other changes in directors holding office are as follows:

C Birch FCA – appointed 13 November 2018

M Owen PhD – appointed 13 November 2018

Dividends

No dividends will be distributed for the year ended 30 June 2019.

Research and development

The Group undertakes research and development on its cancer and autoimmune research programmes. The costs relating to this, which have been written off during the year, amounted to £939,174 (2018: £1,035,708).

Financial instruments

Details regarding the Group's use of financial instruments and their associated risks are given in note 16 to the consolidated financial statements.

Statement of directors' responsibilities

The directors are responsible for preparing the Group Strategic report, the Report of the directors and the financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; 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 and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Statement as to disclosure of information to auditor

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

On behalf of the Board:

T Bunn FCMA
Secretary
14 October 2019

Corporate governance report

Introduction

The Quoted Companies Alliance Corporate Governance Code (the QCA Code) makes clear it is the prime responsibility of the Chairman to ensure the Company applies the QCA Code to the best advantage of all stakeholders.

The Group is an established operation with a clear business model and growth strategy. Our objective is to deliver targeted small molecule therapeutics to treat cancer and autoimmune disease. We seek to build value through licensing the Group's candidates to international pharmaceutical and biotechnology companies at the preclinical or early clinical trials stage. Applying the appropriate corporate governance practices can only help achieve our goals.

A requirement of the QCA Code is to highlight any areas where we are not in compliance and to provide our reasons why not.

An area of non-compliance is that Dr Stephen Parker, non-executive Chairman, Dr Michael Owen, non-executive director, and Mr Clive Birch, non-executive director, are beneficiaries under the Company's share option scheme.

Participation by non-executive directors in share-based incentive arrangements, while against the provisions of the QCA Code, is common for companies with shares quoted on AIM. Stephen, Michael and Clive provide the Company with a wealth of industry and corporate finance experience. Their participation in the share option scheme provides them with upside at no cash cost to the Company as the value of the Company increases.

The arrangement suits the Company and Non-executive directors and we do not currently intend to amend this arrangement.

We trust that the result of our efforts to date provides stakeholders with access to the information they need and the confidence that the Board holds corporate governance compliance in the highest regard.

Dr Stephen Parker
Non-executive Chairman
14 October 2019

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders

Our goals:

As a public company we are focused on delivering value for our shareholders as well as new medicines to treat patients with unmet medical needs.

Our goals are to build value by progressing our research programmes through early clinical development and generate revenues by licensing them to pharmaceutical company partners.

Vision:

The Group's vision is, over the longer term, to build a rich pipeline of clinical-stage medicines with licence deals that produce self-sustaining revenues. Such medicines could have been discovered in house or be in licensed.

Purpose:

The Group's exists to discover and develop innovative drug candidates as new therapies for cancers and autoimmune diseases. Our drug development programmes aim to improve outcomes for patients with serious medical conditions and where current therapies are inadequate.

Strategy:

Our strategy is to develop programmes to the early clinical stages to take advantage of the higher asset values associated with licensing programmes at these stages, but without us incurring the cost and risk of conducting late-stage clinical trials.

For our approach to strategy and the benefits of our strategic priorities, please see Our Strategy on **pages 12 and 13** of this Annual Report.

For key challenges and risks and how they are addressed, please see Risk Management and Principal Risks on **pages 14 and 15** of this Annual Report.

Principle 2 – Seek to understand and meet shareholder needs and expectations

Sareum is committed to open communication with all its shareholders.

Copies of the Annual Report and Accounts are issued to all shareholders who have requested them and copies are available on Sareum's website (www.sareum.com). Our interim results are also made available on the Company's website. We make full use of our website to provide information to shareholders and other interested parties.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the directors are available after the meeting for further discussion with shareholders. In compliance with best practice, the numbers of proxy votes (for, against and vote withheld) logged on each resolution will be declared at all future general meetings and subsequently announced.

The CEO is primarily responsible for updating the market with developments. Meetings via the Company's broker are offered to investment institutions and private client brokers to discuss progress and financial performance immediately after the full year and interim results announcements. All the directors are available for these meetings if requested. Feedback from these meetings is requested by the broker and provided to the Board to ensure the directors have a balanced understanding of the issues and concerns of current and potential future shareholders.

This feedback is discussed at subsequent Board meetings and actions are taken as appropriate. Trading updates and press releases are issued as appropriate. Sareum also uses its Twitter account, @sareumplc, to share non-price sensitive information related to its research and other activities to interested parties.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long term success

The Company regards its shareholders, employees, collaborators, potential licence partners, suppliers and advisers as its key stakeholders.

Management prioritises its relationships with collaborators and suppliers and effort is directed to ensuring they are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Executive directors are in regular dialogue with collaborators and potential licence partners regarding the data requirements for a drug license package. Feedback from these discussions is fed into future development plans as part of an ongoing process.

The Group's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board has established a risk register relating to the Group's business. At least twice a year, the Audit and Risk Committee meets to consider the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis focusing on those deemed most critical.

For further details of the Group's approach to risk and its management, please refer to the Principal Risks section of the Strategic report and to the Report of the independent auditor in the Governance section of Annual Report and Accounts as well as those detailed in Principle 1 of this Corporate governance statement.

Principle 5 – Maintain the Board as a well-functioning, balanced team led by the Chair

The Board, chaired by Dr Stephen Parker, comprises two executive and three non-executive directors and is supported by the Company Secretary. It oversees and implements the Company's corporate governance programme. As Chairman, Stephen is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Further details pertaining to the Board and the roles carried out by each member are set out in the Governance section of the Annual Report and Accounts.

Each Board member commits sufficient time to fulfil their duties and obligations to the Board and the Company. They attend monthly Board meetings and join ad hoc Board calls and offer availability for consultation when needed.

Detailed Board packs include information on business, technical and financial performance and are circulated ahead of Board meetings. Key issues are highlighted and explained, providing Board members with sufficient information to enable a relevant discussion in the Board meeting.

The Board is supported by its Audit and Risk, Remuneration and Nominations Committees.

Links to the terms of reference for each of the Board Committees can be found in the Corporate Governance section of the Company's website, www.sareum.com.

The attendance record of Board members at Board meetings during the last year is as follows:

Dr Stephen Parker	11/11
Dr Tim Mitchell	11/11
Dr John Reader	11/11
Mr Clive Birch	7/7
Dr Michael Owen	6/7

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Governance report included in the Annual Report and Accounts identifies each member of the Board and describes the relevant experience, skills and qualities they bring. The Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies covering all essential disciplines bringing a balanced perspective that is beneficial both strategically and operationally and will enable the Company to deliver its strategy. The Company is, however, looking to build on those skills through selective appointments.

The Board consists of two executive directors and three non-executive directors, ranging in age from 52 to 67 years old. The biographies of the directors are set out in this governance section.

The nature of the Group business requires the directors to keep their skillset up to date. The directors attend training courses and conferences as appropriate in order to do this.

In addition to the support provided by the Company's retained professional advisers (Nomad, broker, investor relations, lawyers and auditor), external consultants have been engaged to advise on a number of matters including research and development strategy and intellectual property management.

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

Board performance effectiveness process

The assessment of the Board's performance has to date been largely focused on the achievement of the Group's strategic and financial objectives.

Corporate governance report continued

Principle 7 – Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement continued

Board performance effectiveness process continued

Each executive Board member is subject to an annual review by the Remuneration Committee based on the performance of the Group as a whole and their personal contribution. The outcome of these reviews feeds directly into the award of salary increases, bonuses and share options. It is proposed that the Company also adopts annual evaluation for non-executive director performance, although there is no current intention that such non-executive directors receive regular bonus payments. The performance of the Board as a whole may be judged in part by the attainment of financial measures including profit/loss for the year, research and development expenditure and cash at bank.

Succession planning and Board appointments

The Board meets as and when necessary to consider the appointment of new executive and non-executive directors and the Board takes responsibility for succession planning. Board members all have appropriate notice periods so that if a Board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external.

Each director is required to offer themselves for re-election at least once every three years as per the Company's Articles of Association. The CEO and CSO are currently the longest serving Board members, having been appointed in 2004.

Board appointments are made after having completed due diligence and consultation with advisers.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours

Sareum is a small, motivated team of professional people, which operates to high standards. These standards include a commitment to best practice in meeting the Company's social responsibilities.

The Company is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of sex, gender reassignment, race, disability, sexual orientation, pregnancy and/or maternity, marital or civil partner status, religion or belief or age.

In line with best practice, health and safety matters are discussed at each Board meeting. The Group's environment and health and safety policies are as follows:

Environment

Sareum disposes of its waste products using reputable agents. The Group's landlord provides these agents to enable it to recycle its waste as appropriate.

Health and safety

The Group is proactive in considering the safety of staff, visitors and the public. It has had no notifiable safety incidents during the year and no working days were lost due to accidents.

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Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision making by the Board

The executive members of the Board have overall responsibility for managing the day-to-day operations of the Group and the Board as a whole is responsible for monitoring performance against the Group's goals and objectives. The Chairman chairs the meeting and business and operational, technical and financial reports are provided by the CEO, CSO and Company Secretary respectively, discussed by the Board and actions, as appropriate, are minuted and taken. Decisions concerning the day-to-day running of the Group are taken by the Executive team (and reported to the Board as appropriate), whilst decisions regarding strategic matters are taken at Board level.

The roles of the Audit and Risk Committee and the Remuneration and Nomination Committees are set out in the Corporate Governance section of the Company's website at www.sareum.com/investors/corporate-governance/as well as in this report. The appropriateness of the Group's governance structures will be reviewed as the Company evolves.

Principle 10 – Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Company maintains a regular dialogue with stakeholders including shareholders to enable interested parties to make informed decisions about the Group and its performance. The Board believes that transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be listened to.

The Board already discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings. In future, in the event that a significant portion of voters have voted against a resolution, an explanation of what actions it intends to take to understand the reasons behind the vote will be included.

The roles and responsibilities of the Committees supporting the Board, and the work undertaken by them, are set out in this report.

Remuneration Committee report

Dr Michael Owen
Chairman

The Company recognises and follows the QCA Code 2018.

Key responsibilities
The Remuneration Committee of the Board is responsible for considering staff and directors' remuneration packages and makes its recommendations to the Board.

Members
Dr Michael Owen, Clive Birch, Dr Stephen Parker

Introduction
The Company recognises and seeks to follow the QCA Code and in line with the recommendations of the QCA Code, this report provides information to enable a greater level of understanding as to how remuneration is determined by the Board.

The Remuneration Committee is responsible for considering staff and directors' remuneration packages and makes its recommendations to the Chair. The Committee currently comprises Dr Michael Owen, Clive Birch and Dr Stephen Parker. It meets at least twice a year to review salaries and share option schemes for the directors.

Remuneration policy
Remuneration packages are designed to be competitive and to reward above average performance. At present, executive directors receive salary, death-in-service benefit, critical illness and medical cover and a pension contribution.

Executive directors' service contracts
The two executive directors have executive service agreements with the Company dated 7 July 2004. The service agreements are subject to termination upon six months' notice being given by either party and are subject to standard terms in the event of termination.

For the year from 1 July 2018 a directors' bonus scheme was in effect to reward the directors based on performance targets that build shareholder value.

Pensions
The Group does not have a pension scheme but makes contributions to executive directors' personal pension schemes amounting to 6.375% of annual salary. In addition, the executive directors contribute to their pension schemes via salary sacrifice, and the National Insurance savings made by the Group as a result of this arrangement are added to the Group's contributions.

Share option schemes
In setting up share option schemes for staff, the Committee took into account the recommendations of shareholder bodies, such as those of the insurance companies, on the number of options to issue and the criteria for vesting. It approved the following share incentive arrangements for staff:

- an Inland Revenue approved (EMI) share option scheme (approved scheme); and
- an unapproved share option scheme (unapproved scheme), identical to the approved scheme.

Non-executive directors
The Non-executive Chairman entered into a letter of engagement dated 13 May 2016. Members may request copies of the letter by sending a stamped addressed envelope to the Company Secretary. The appointment can be terminated by either party giving six months' notice. The two other non-executive directors entered into a letter of engagement dated 12 November 2018.

Directors' remuneration table

	Salary £	Benefit in kind £	Emoluments £	Pension £	**Total 2019 £**	Total 2018 £
Executive Directors						
Dr TJ Mitchell	169,570	4,643	174,213	13,065	**187,278**	190,946
Dr JC Reader	169,570	1,092	170,662	13,063	**183,725**	193,222
Non-executive Directors						
Dr SC Parker	58,118	—	58,118	—	**58,118**	55,350
Dr M Owen	12,708	—	12,708	—	**12,708**	—
Mr C Birch	12,708	—	12,708	—	**12,708**	—
Total	422,674	5,735	428,409	26,128	**454,537**	439,518

Remuneration Committee report continued

Share option table

The interests in the share option schemes of the directors who served during the year were as follows:

Director	Share scheme	Exercise price (pence)	No. of shares under option	Percentage of issued share capital
Dr Tim Mitchell	EMI	0.25	6,400,000	0.22%
	EMI	0.26	6,153,846	0.21%
	EMI	1.2	2,566,666	0.09%
	EMI	0.6	4,752,000	0.17%
	EMI	0.425	7,198,353	0.25%
	EMI	0.59	5,340,862	0.19%
	EMI	0.8	6,250,000	0.22%
	EMI	1.2	3,125,000	0.11%
	EMI	1.6	3,125,000	0.11%
	Unapproved	0.825	9,548,844	0.33%
	Unapproved	1.2375	4,774,422	0.17%
	Unapproved	1.65	4,774,421	0.17%
	Unapproved	0.7	11,816,694	0.41%
	Unapproved	1.05	5,908,347	0.21%
	Unapproved	1.4	5,908,347	0.21%
Dr John Reader	EMI	0.25	6,400,000	0.22%
	EMI	0.26	6,153,846	0.21%
	EMI	1.2	2,566,666	0.09%
	EMI	0.6	4,752,000	0.17%
	EMI	0.425	7,198,353	0.25%
	EMI	0.59	5,340,862	0.19%
	EMI	0.8	6,250,000	0.22%
	EMI	1.2	3,125,000	0.11%
	EMI	1.6	3,125,000	0.11%
	Unapproved	0.825	9,548,844	0.33%
	Unapproved	1.2375	4,774,422	0.17%
	Unapproved	1.65	4,774,421	0.17%
	Unapproved	0.7	11,816,694	0.41%
	Unapproved	1.05	5,908,347	0.21%
	Unapproved	1.4	5,908,347	0.21%
Dr Stephen Parker	Unapproved	0.8	5,000,000	0.17%
	Unapproved	1.2	2,500,000	0.09%
	Unapproved	1.6	2,500,000	0.09%
	Unapproved	0.825	3,272,728	0.11%
	Unapproved	1.2375	1,636,364	0.06%
	Unapproved	1.65	1,636,363	0.06%
	Unapproved	0.7	4,050,000	0.14%
	Unapproved	1.05	2,025,000	0.07%
	Unapproved	1.4	2,025,000	0.07%
Dr Michael Owen	Unapproved	0.7	1,428,571	0.05%
	Unapproved	1.05	714,286	0.02%
	Unapproved	1.4	714,286	0.02%
Mr Clive Birch	Unapproved	0.7	1,428,571	0.05%
	Unapproved	1.05	714,286	0.02%
	Unapproved	1.4	714,286	0.02%

The market price of the shares at 30 June 2019 was 0.435 pence and the range during the year was 0.435 pence to 0.888 pence.

Financial statements

Report of the independent auditor

to the members of Sareum Holdings plc

Opinion

We have audited the financial statements of Sareum Holdings plc (the 'parent company') and its subsidiary (the 'Group') for the year ended 30 June 2019 which comprise the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of changes in equity, the Company statement of changes in equity, the Consolidated cash flow statement, the Company cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Risk	How the scope of our audit responded to the risk
Management override of controls Journals can be posted that significantly alter the financial statements.	We examined journals posted around the year end, specifically focusing on areas which are more easily manipulated such as accruals, prepayments, bank reconciliations and tax.
Going concern There is a risk that the Company is not a going concern.	We made enquiries with the directors regarding how they have assessed going concern. We have reviewed projections and disclosed accordingly.
Fraud in revenue recognition There is a risk that revenue is materially understated due to fraud.	With no income being reported in the year, potential sources of income were reviewed to ensure no evidence of material understatement. We concluded that no evidence of fraud or other understatement was identified.
Accounting estimates Potential risk of inappropriate accounting estimates giving rise to misstatement in the accounts.	Accruals were agreed to expected costs and supporting documentation and other areas were examined to identify any potential accounting estimates.
Risk of material misstatement within related party transactions There is the risk that related party transactions are potentially incomplete or materially misstated.	Correspondence, including Board minutes, and accounting records were reviewed for evidence of material related party transactions and it is considered that all relevant items have been disclosed.
Disclosures There is a risk of incorrect or incomplete disclosures in the financial statements.	The financial statements have been reviewed and checks have been undertaken to ensure all material disclosure requirements have been met.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

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 and in the scope of our audit work and in evaluating the results of our work.

We determine materiality for the Group to be £38,177 and this financial benchmark, which has been used throughout the audit, was determined by way of a standard formula being applied to key financial results and balances presented in the financial statements. Where considered relevant the materiality is further adjusted to suit the specific area risk profile of the Company.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group Strategic report and the Report of the directors, but does not include the financial statements and our Report of the auditor thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the Statement of directors' responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Stewart Jell (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

14 October 2019

Consolidated statement of comprehensive income

for the year ended 30 June 2019

	Notes	2019 £	2018 £
Continuing operations			
Revenue		**—**	—
Other operating income		**—**	—
Administrative expenses		**(1,676,439)**	(1,709,699)
Share of loss of associates		**(10,016)**	(12,264)
Operating loss		**(1,686,455)**	(1,721,963)
Finance income	5	**4,085**	3,745
Loss before income tax	6	**(1,682,370)**	(1,718,218)
Income tax	7	**229,905**	248,697
Loss for the year		**(1,452,465)**	(1,469,521)
Total comprehensive expense for the year		**(1,452,465)**	(1,469,521)
Loss attributable to:			
Owners of the parent		**(1,452,465)**	(1,469,521)
Total comprehensive income attributable to:			
Owners of the parent		**(1,452,465)**	(1,469,521)
Loss per share expressed in pence per share:	9		
Basic and diluted		**(0.05)p**	(0.05)p

The notes form part of these financial statements.

Consolidated balance sheet

as at 30 June 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Intangible assets		—	—
Property, plant and equipment	10	—	8,000
Investments in associates	11	**31,359**	41,375
		31,359	49,375
Current assets			
Trade and other receivables	12	**59,476**	137,832
Tax receivable		**230,933**	253,562
Cash and cash equivalents	13	**919,343**	1,375,275
		1,209,752	1,766,669
Liabilities			
Current liabilities			
Trade and other payables	14	**146,926**	183,455
Net current assets		**1,062,826**	1,583,214
Net assets		**1,094,185**	1,632,589
Shareholders' equity			
Called up share capital	17	**718,997**	686,305
Share premium	18	**13,162,052**	12,395,744
Share-based compensation reserve	18	**407,872**	292,811
Merger reserve	18	**27**	27
Retained earnings	18	**(13,194,763)**	(11,742,298)
Total equity		**1,094,185**	1,632,589

The financial statements were approved by the Board of directors on 14 October 2019 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Company balance sheet

as at 30 June 2019

	Notes	2019 £	2018 £
Assets			
Non-current assets			
Investments	11	**30,000**	30,000
		30,000	30,000
Liabilities			
Net current liabilities		**—**	—
Net assets		**30,000**	30,000
Shareholders' equity			
Called up share capital	17	**718,997**	686,305
Share premium	18	**13,162,052**	12,395,744
Share-based compensation reserve	18	**407,872**	292,811
Retained earnings	18	**(14,258,921)**	(13,344,860)
Total equity		**30,000**	30,000

The financial statements were approved by the Board of directors on 14 October 2019 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2019

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 July 2017	661,305	(10,272,777)	11,765,111
Changes in equity			
Issue of share capital	25,000	—	630,633
Total comprehensive income	—	(1,469,521)	—
Share-based compensation	—	—	—
Balance at 30 June 2018	686,305	(11,742,298)	12,395,744
Changes in equity			
Issue of share capital	32,692	—	766,308
Total comprehensive income	—	(1,452,465)	—
Share-based compensation	—	—	—
Balance at 30 June 2019	**718,997**	**(13,194,763)**	**13,162,052**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2017	191,945	27	2,345,611
Changes in equity			
Issue of share capital	—	—	655,633
Total comprehensive income	—	—	(1,469,521)
Share-based compensation	100,866	—	100,866
Balance at 30 June 2018	292,811	27	1,632,589
Changes in equity			
Issue of share capital	—	—	799,000
Total comprehensive income	—	—	(1,452,465)
Share-based compensation	115,061	—	115,061
Balance at 30 June 2019	**407,872**	**27**	**1,094,185**

The notes form part of these financial statements.

Company statement of changes in equity

for the year ended 30 June 2019

	Called up share capital £	Share-based retained earnings £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2017	661,305	(12,588,361)	11,765,111	191,945	30,000
Changes in equity					
Issue of share capital	25,000	—	630,633	—	655,633
Total comprehensive income	—	(756,499)	—	—	(756,499)
Share-based compensation	—	—	—	100,866	100,866
Balance at 30 June 2018	686,305	(13,344,860)	12,395,744	292,811	30,000
Changes in equity					
Issue of share capital	32,692	—	766,308	—	799,000
Total comprehensive income	—	(914,061)	—	—	(914,061)
Share-based compensation	—	—	—	115,061	115,061
Balance at 30 June 2019	**718,997**	**(14,258,921)**	**13,162,052**	**407,872**	**30,000**

The notes form part of these financial statements.

Consolidated cash flow statement

for the year ended 30 June 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	24	**(1,515,764)**	(1,635,688)
Tax received		**252,534**	43,365
Net cash outflow from operating activities		**(1,263,230)**	(1,592,323)
Cash flows from investing activities			
Interest received		**4,085**	3,745
Net cash from investing activities		**4,085**	3,745
Cash flows from financing activities			
Loan repayment by director		**4,213**	2,711
Share issue		**32,692**	25,000
Share premium on share issue		**766,308**	630,633
Net cash inflow from financing activities		**803,213**	658,344
Decrease in cash and cash equivalents		**(455,932)**	(930,234)
Cash and cash equivalents at beginning of year	25	**1,375,275**	2,305,509
Cash and cash equivalents at end of year	25	**919,343**	1,375,275

The notes form part of these financial statements.

Company cash flow statement

for the year ended 30 June 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Cash generated from operations	24	**(799,000)**	(655,633)
Net cash outflow from operating activities		**(799,000)**	(655,633)
Cash flows from financing activities			
Share issue		**32,692**	25,000
Share premium on share issue		**766,308**	630,633
Net cash from financing activities		**799,000**	655,633
Increase in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year	25	**—**	—
Cash and cash equivalents at end of year	25	**—**	—

The notes form part of these financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2019

1. Basis of preparation

The consolidated financial statements of Sareum Holdings plc (the Company or Sareum) and its subsidiary (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, with IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

IFRS comprise standards and interpretations approved by the IASB. IFRS as adopted by the European Union differ in certain respects from IFRS as issued by the IASB. However, consolidated financial statements for the financial years presented would be no different had IFRS as issued by the IASB been applied. References to IFRS hereafter should be construed as references to IFRS as adopted by the European Union.

Going concern

The directors consider that the cash held at the year end, together with the proceeds of the placing received in July 2019, which amounted to £781,484 before expenses, will be sufficient to meet the forecast expenditure for at least one year from the date of signing the financial statements. In the event that there is a shortfall the directors will implement cost savings to ensure that the cash resources last for this period of time. For this reason the financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiary) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities. The consolidated financial statements present the results of the Company and its subsidiary as if they formed a single entity. Inter-company transactions and balances between Group companies are eliminated on consolidation.

2. Statutory information

Sareum is a public limited company, registered in England and Wales. The Company's registered number and registered office address can be found on the Company Information page.

3. Accounting policies

The principal accounting policies applied are set out below.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Motor vehicles	—	straight line over three years
Fixtures and computers	—	straight line over three or four years

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Operating lease agreements

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

Pension contributions

The Group does not operate a pension scheme for the benefit of its employees but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the profit and loss account.

Notes to the consolidated financial statements continued

for the year ended 30 June 2019

3. Accounting policies continued

Employee share scheme

The Group has in place a share option scheme for employees, which allows them to acquire shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value of options granted is recognised as an expense spread over the estimated vesting period of the options granted. Fair value is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable in the normal course of business, net of discounts, VAT and other sales related taxes and is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company. Grant income is recognised as earned based on contractual conditions, generally as expenses are incurred.

Investment in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for using the equity method, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the associate's net assets with recognition in the profit and loss of the share of the associate's profit or loss.

Critical accounting estimates and areas of judgement

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions that have the most significant effects on the carrying amounts of the assets and liabilities in the financial information are considered to be research and development costs and equity-settled share-based payments.

Accounting standards and interpretations not applied

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group that have not been applied in these financial statements were in issue but not yet effective:

Standard		Effective for accounting periods starting on or after
IFRS 16	Leases	1 January 2019
Amendments to IAS 28	Clarifies how IAS 28 interacts with IFRS 9	1 January 2019
Annual improvements to IFRS Standards 2015-2017 cycle	—	1 January 2019
Amendments to IAS 1	Definition of material	1 January 2020

The directors anticipate that the adoption of these standards and interpretations in future years will have no material impact on the financial statements of the Group.

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

4. Employees and directors

	2019 £	2018 £
Wages and salaries	**426,632**	412,300
Social security costs	**46,466**	43,758
Other pension costs	**26,128**	28,678
	499,226	484,736

The average number of employees during the year was as follows:

	2019	2018
Office and management	**1**	1
Research	**1**	1
	2	2

	2019 £	2018 £
Directors' remuneration	**428,409**	410,840
Directors' pension contributions to money purchase schemes	**26,128**	28,678

4. Employees and directors continued

The number of directors to whom retirement benefits were accruing was as follows:

	2019	2018
Money purchase schemes	**2**	2

Information regarding the highest paid director is as follows:

	2019 £	2018 £
Emoluments, etc.	**174,213**	177,976
Pension contributions to money purchase schemes	**13,065**	12,970

The directors comprise the key management personnel of the Group.

5. Net finance income

	2019 £	2018 £
Finance income:		
Deposit account interest	**4,085**	3,745

6. Loss before income tax

The loss before income tax is stated after charging:

	2019 £	2018 £
Other operating leases	**18,420**	13,902
Depreciation – owned assets	**8,000**	5,333
Research and development	**939,174**	1,035,708
Auditor's remuneration – see analysis below	**13,375**	13,100

The analysis of auditor's remuneration is as follows:

	2019 £	2018 £
Fees payable to the Company's auditor for the audit of the annual accounts		
Audit of the Company	**4,600**	4,500
Audit of subsidiary	**7,450**	7,300
Total audit fees	**12,050**	11,800
Fees payable to the Company's auditor for other services		
Taxation services	**1,325**	1,300
Total fees payable to the Company's auditor	**13,375**	13,100

7. Income tax

	2019 £	2018 £
Current tax:		
UK corporation tax credit on profits/losses of the period	**(225,985)**	(252,534)
Adjustments recognised in the current year in relation to the current tax of prior years	**(3,920)**	3,837
Tax credit to the income statement	**(229,905)**	(248,697)

Notes to the consolidated financial statements continued

for the year ended 30 June 2019

7. Income tax continued

The credit for the year can be reconciled to the accounting loss as follows:

	2019 £	2018 £
Loss before tax	**(1,682,370)**	(1,718,218)
At average rate of 19% (2018: 19%)	**(319,650)**	(326,461)
Effects of:		
Capital allowances (less)/more than depreciation	**(699)**	699
Other timing differences	**633**	55
Unutilised tax losses	**192,869**	181,835
Losses surrendered for research and development tax credits (less uplift)	**126,847**	143,872
Research and development tax credits claimed	**(225,985)**	(252,534)
Prior year adjustments	**(3,920)**	3,837
Actual current tax credit in the year	**(229,905)**	(248,697)

The tax rate of 19% used above for the 2018 and 2019 reconciliations is the average corporation tax rate applicable in the United Kingdom.

8. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the Statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £914,061 (2018: £756,499).

The loss represents costs of £196,502 (2018: £186,086) associated with the Company's AIM listing, the share-based compensation adjustment of £115,061 (2018: £100,866) and an increase in the provision of £602,498 (2018: £469,547) for impairment of amounts owed by Group undertakings.

9. Earnings per share

The calculation of loss per share is based on the following data:

Basic (loss)/profit per share:

	2019	2018
Loss on ordinary activities after tax	**£(1,452,465)**	£(1,469,521)
Weighted average number of shares for basic loss per share	**2,826,717,857**	2,705,771,933
Basic and diluted loss per share	**(0.05)p**	(0.05)p

As the Group has generated a loss for the period, there is no dilutive effect in respect of share options.

10. Property, plant and equipment

Group	Motor vehicles £	Fixtures and computers £	Total £
Cost			
At 1 July 2018	16,000	9,894	25,894
Disposals	(16,000)	—	(16,000)
At 30 June 2019	**—**	**9,894**	**9,894**
Depreciation			
At 1 July 2018	8,000	9,894	17,894
Charge for year	8,000	—	8,000
Eliminated on disposal	(16,000)	—	(16,000)
At 30 June 2019	**—**	**9,894**	**9,894**
Net book value			
At 30 June 2019	**—**	**—**	**—**
At 30 June 2018	8,000	—	8,000

11. Investments

Group	Interest in associates £
Cost	
At 1 July 2018 and 30 June 2019	**1,138,125**
Impairment	
At 1 July 2018	1,096,750
Impairment for year	10,016
At 30 June 2019	**1,106,766**
Net book value	
At 30 June 2019	**31,359**
At 30 June 2018	41,375

Interest in associates
The interest in associates represents the investment by the Group in the partnership with the Cancer Research Technology Pioneer Fund to advance the Chk1 programme. The associate has been accounted for using the equity method in the consolidated financial statements. Sareum's interest in the associate partnership is 27.5%. As at 30 June 2019 the partnership had net assets of £121,195 (2018: £157,474) and had incurred cumulative losses of £552,025 (2018: £515,746).

Company	Shares in Group undertakings £
Cost	
At 1 July 2018 and 30 June 2019	**30,000**
Net book value	
At 30 June 2019	**30,000**
At 30 June 2018	30,000

At the balance sheet date the Company owned 100% of the issued ordinary share capital of Sareum Limited (the subsidiary). The subsidiary is included within the consolidated financial statements of Sareum Holdings plc.

12. Trade and other receivables

	Group	
	2019 £	2018 £
Current:		
Directors' loan accounts	**—**	4,213
VAT	**13,059**	20,959
Prepayments and accrued income	**46,417**	112,660
	59,476	137,832

	Company	
	2019 £	2018 £
Non-current:		
Amounts owed by Group undertakings	**11,893,353**	11,290,854
Provision for impairment	**(11,893,353)**	(11,290,854)
	—	—

The inter-company loan is considered a short term recoverable as it attracts no interest and has no contractual repayment terms. The directors have considered the recoverability of the inter-company balance and have made provision for the full value of the debt.

Notes to the consolidated financial statements continued

for the year ended 30 June 2019

13. Cash and cash equivalents

	Group	
	2019 £	2018 £
Bank deposit account	**908,676**	1,368,687
Bank accounts	**10,667**	6,588
	919,343	1,375,275

14. Trade and other payables

	Group	
	2019 £	2018 £
Current:		
Trade creditors	**83,556**	143,618
Social security and other taxes	**17,774**	15,234
Other creditors	**14,331**	5,999
Accrued expenses	**31,265**	18,604
	146,926	183,455

The Company has no creditors outstanding at the year end date.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit term agreed with suppliers is 30 days and payment is generally made within the agreed terms.

15. Leasing agreements

Minimum lease payments fall due as follows:

	Non-cancellable operating leases	
Group	**2019 £**	2018 £
Within one year	**13,614**	13,614
Between one and five years	**7,110**	20,724
	20,724	34,338

The outstanding commitments include rental payments due under the lease for the Group's office premises which expires in December 2020. The lease does not include any onerous restriction of the Group's activities.

Company

The Company had no lease commitments at 30 June 2019.

16. Financial instruments

The Group's principal financial instruments are trade and other receivables, trade and other payables and cash. The main purpose of these financial instruments is to finance the Group's ongoing operational requirements. The Group does not trade in derivative financial instruments.

The major financial risks faced by the Group, which remained unchanged throughout the year, are interest rate risk, foreign exchange risk and liquidity risk.

Policies for the management of these risks are shown below and have been consistently applied.

Market risks

Interest rate risk

The Group is exposed to interest rate risk as cash balances in excess of immediate needs are placed on short term deposit. The Group seeks to optimise the interest rates received by continuously monitoring those available.

Foreign exchange risk

The Group's activities expose it to fluctuations in the exchange rate for the Euro and the US Dollar.

Funds are maintained in Sterling and foreign currency is acquired on the basis of committed expenditure.

The value of the Group's financial instruments is not considered to be materially sensitive to the above risks and therefore no sensitivity analysis has been provided.

Non-market risks

Liquidity risk

The Board has responsibility for reducing exposure to liquidity risk and ensures that adequate funds are available to meet anticipated requirements from existing operations by a process of continual monitoring.

17. Called up share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2019 £	2018 £
2,875,993,219 (2018: 2,745,223,988)	Ordinary shares	0.025p	**718,997**	686,305

The ordinary shares carry equal rights in respect of voting at a general meeting of shareholders, payment of dividends and return of assets in the event of a winding up.

In November 2018, 130,769,231 ordinary shares of 0.025 pence were issued at 0.65 pence per share.

Details of share options granted can be found in note 23 to the financial statements, Share-based payment transactions.

18. Reserves

Reserve	Description and purpose
Share capital	Amount of the contributions made by shareholders in return for the issue of shares.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Premium on shares issued in consideration of the acquisition of subsidiaries.
Retained earnings	Cumulative net gains and losses recognised in the consolidated and the Company balance sheet.
Share-based compensation reserve	Cumulative fair value of share options granted and recognised as an expense in the income statement.

Details of movements in each reserve are set out in the Consolidated statement of changes in equity.

19. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £26,128 (2018: £28,678) are charged to the profit and loss account. At the balance sheet date contributions of £9,325 (2018: £5,994) were owed and are included in creditors.

20. Contingent liabilities

There are no contingent liabilities (2018: £nil).

21. Related party disclosures

Disclosure regarding the remuneration of key management personnel is given in note 4, Employees and directors.

Transactions between the Company and its subsidiary, Sareum Limited, which is a related party, have been eliminated on consolidation. The ultimate holding company of the Group is Sareum Holdings plc.

During the year, Sareum Holdings plc continued to provide an interest free loan to Sareum Limited, further details of which can be found in note 12 to the financial statements.

22. Reconciliation of movements in shareholders' funds

	Group	
	2019 £	2018 £
Loss for the financial year	**(1,452,465)**	(1,469,521)
Issue of share capital	**799,000**	655,633
Share-based compensation reserve	**115,061**	100,866
Net reduction of shareholders' funds	**(538,404)**	(713,022)
Opening shareholders' funds	**1,632,589**	2,345,611
Closing shareholders' funds	**1,094,185**	1,632,589

	Company	
	2019 £	2018 £
Loss for the financial year	**(914,061)**	(756,499)
Issue of share capital	**799,000**	655,633
Share-based compensation reserve	**115,061**	100,866
Opening shareholders' funds	**30,000**	30,000
Closing shareholders' funds	**30,000**	30,000

Notes to the consolidated financial statements continued

for the year ended 30 June 2019

23. Share-based payment transactions

The Group operates a share option scheme under the Enterprise Management Incentive Scheme (EMI) for employees of the Group and it also operates an unapproved share option scheme. If the options under either scheme remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2019		2018	
	Number of share options	**Weighted average exercise price (in pence)**	Number of share options	Weighted average exercise price (in pence)
Outstanding at beginning of the period	**154,564,283**	**0.815**	112,770,909	0.680
Granted during the period	**61,081,062**	**0.960**	44,740,929	0.882
Forfeited during the period	**—**	**—**	2,947,455	0.524
Exercised during the period	**—**	**—**	—	—
Expired during the period	**—**	**—**	—	—
Outstanding at the end of the period	**215,645,345**	**0.857**	154,564,283	0.815
Exercisable at the end of the period	**196,542,788**	**0.884**	135,461,706	0.848

The options outstanding at 30 June 2019 had a weighted average remaining contractual life of six years and 11 months (30 June 2018: six years and ten months). The options outstanding but not exercisable at 30 June 2019 and 30 June 2018 vest subject to pre-determined performance criteria.

Fair value calculation

Fair value was estimated using the Black-Scholes model. The key data and assumptions used were:

Date of grant	Mar 2019	Dec 2017	Dec 2016	Mar 2016	Nov 2014	Dec 2013	Mar 2012	Dec 2010	Dec 2009
Share price – pence	0.682	0.825	0.75	0.59	0.45	0.5	1.2	0.25	0.25
Exercise price – pence	*	*	*	0.59	0.425	0.6	1.2	0.26	0.25
Volatility	50%	50%	50%	50%	50%	50%	50%	50%	83%
Time until maturity – years	three	three	three	three	three	three	three	three	three
Risk free rate of interest	1%	1%	1%	1%	1%	1%	1%	1%	1%
Expected dividend yield	nil	nil	nil	nil	nil	nil	nil	nil	nil

* The share options that were granted in December 2016 were issued with exercise prices of 0.8 pence, 1.2 pence and 1.6 pence. Options that were granted in December 2017 were issued with exercise prices of 0.825 pence, 1.2375 pence and 1.65 pence. Options granted in March 2019 were issued with exercise prices of 0.7 pence, 1.05 pence and 1.4 pence.

Volatility for the options granted in March 2019, December 2017, December 2016, March 2016, November 2014, December 2013, March 2012 and December 2010 is based on share price performance for companies operating in a similar field. Volatility for the options granted in December 2009 is calculated using the Group's historical share price data and is the annual volatility at 30 June 2010.

The weighted average fair value of the share options at 30 June 2019 was 0.189 pence per share (2018: 0.194 pence per share). A fair value charge of £115,061 has been provided in the year (2018: £100,866).

24. Reconciliation of loss before income tax to cash generated from operations

	Group	
	2019 £	2018 £
Loss before income tax	**(1,682,370)**	(1,718,218)
Depreciation charges	**8,000**	5,333
Share-based compensation	**115,061**	100,866
Share of costs of associates	**10,016**	12,264
Finance income	**(4,085)**	(3,745)
	(1,553,378)	(1,603,500)
Decrease/(increase) in trade and other receivables	**74,143**	(60,109)
(Decrease)/increase in trade and other payables	**(36,529)**	27,921
Cash used in operations	**(1,515,764)**	(1,635,688)

24. Reconciliation of loss before income tax to cash generated from operations continued

	Company	
	2019 £	2018 £
Loss before income tax	**(914,061)**	(756,499)
Impairment provision	**602,498**	469,546
Share-based compensation	**115,061**	100,866
	(196,502)	(186,087)
Increase in trade and other receivables	**(602,498)**	(469,546)
Cash used in operations	**(799,000)**	(655,633)

25. Cash and cash equivalents

The amounts disclosed on the cash flow statements in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	Group		Company	
Year ended 30 June 2019	**30 June 2019 £**	1 July 2018 £	**30 June 2019 £**	1 July 2018 £
Cash and cash equivalents	**919,343**	1,375,275	**—**	—

Year ended 30 June 2018	30 June 2018 £	1 July 2017 £	30 June 2018 £	1 July 2017 £
Cash and cash equivalents	1,375,275	2,305,509	—	—

26. Capital risk management

The Group manages its capital to ensure that the Company and its subsidiary company will be able to continue as going concerns.

The capital structure of the Company consists of equity, comprising issued share capital and reserves as disclosed in notes 17 and 18, and cash and cash equivalents.

27. Deferred tax

No provision has been made in the Group's accounts and the amounts not provided for at the end of the year are as follows:

	2019 £	2018 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(1,454)**	(2,153)
Tax losses available	**(1,480,874)**	(1,288,005)
	(1,482,328)	(1,290,158)

A potential deferred tax asset of £1,482,328 has not been recognised, as there remains a significant degree of uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

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