Verseon

Annual report and accounts 2016

Cautionary note on forward-looking statements

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

Contents

Verseon is a technology-based pharmaceutical company with a computer-driven drug discovery platform. We design novel drugs that are unlikely to be found using conventional methods.

www.verseon.com

Highlights

Finance

Results for the year ended December 31, 2016:

- Total assets on the balance sheet stood at $69.6 million, compared to $85.7 million at the end of 2015.
- Cash, cash equivalents, and short term investments stood at $46.9 million, compared to $74.7 million at the end of 2015.
- Property and equipment totaled $22.3 million, compared to $9.8 million at the end of 2015.
- Research and development expenses were $11.5 million, compared to $4.5 million in 2015, primarily attributable to an acceleration of our drug programs.
- General and administrative expenses were $5.8 million, compared to $5.2 million in 2015.
- Non-cash expenses include stock based compensation of $0.8 million, compared to $1.4 million in 2015, and also a currency exchange loss of $2.6 million, compared to a gain of $1.9 million in 2015.
- Net loss was $19.5 million or $0.13 per basic share, compared to a net loss of $7.7 million or $0.06 per basic share in 2015.

Operations

Anticoagulation

- We have nominated the first development candidate in our class of direct thrombin inhibitors and expect to commence clinical trials in 2017.
- Preclinical studies show that our first development candidate has low renal clearance, a highly desirable property especially for patients with impaired kidney function.
- The class of Verseon inhibitors preserves platelet function, a feature that distinguishes them from available anticoagulants and provides a rationale for their low bleeding liability.
- Presentations at key international scientific and industry conferences have generated significant interest in our anticoagulation candidates.

Diabetic macular edema

- We are advancing several families of novel plasma kallikrein inhibitors with good activity and selectivity through preclinical efficacy and formulation studies.
- Our drug candidates show favorable permeability into the eye in *ex vivo* experiments, an important prerequisite for topical delivery.

Oncology

- We have developed anticancer drug candidates with improved potency and good efficacy in multiple cancer cell lines.

Infrastructure

- We have expanded our lab capabilities with chemical and bioanalytical equipment and continue to design and implement sophisticated assays and preclinical models for each of our programs.
- The buildout of our new facility, which will combine administrative and research functions in a single location, is nearing completion. We expect to take full advantage of the facility in mid 2017.

Team

- In 2016, the Verseon team nearly doubled, with more than half of our employees holding PhDs.

Intellectual property

- We continue to strengthen the intellectual property protection for our programs in key markets. In January 2017, the US Patent and Trademark Office issued two new patents for our serine protease inhibitors.

Chairman's statement

"Using its computationally driven platform, Verseon has built a diverse pipeline of drug programs and is on a good path to increase shareholder value."

Thomas A. Hecht, PhD, Chairman of the Board

Verseon remains focused on advancing its three current drug programs in anticoagulation, diabetic macular edema, and oncology. Using its computationally driven platform, Verseon has built a diverse pipeline of drug programs and is on a good path to increase shareholder value.

In 2016, the Company nominated the first development candidate in its anticoagulation program. The program is expected to enter the clinic in 2017.

The Company is also optimizing several compounds in its diabetic macular edema and oncology programs and continues to see promising results.

Verseon has undertaken steps toward identifying additional disease areas for future drug programs and is currently selecting indications with significant market potential and well-defined development paths that allow them to leverage the full power of their platform.

Verseon is driven by a culture of innovation, a natural outgrowth of talented individuals propelled by their common goal to revolutionize drug discovery. Our new corporate headquarters will bring computational scientists, chemists, and biologists into a single location, which is expected to lead to a further boost in productivity and collaboration. The added space will allow Verseon to advance existing product lines with unimpeded focus and start additional simultaneous programs.

The Board continues to monitor Verseon's strategic focus and resource allocation as the Company builds a strong foundation for computer-driven drug discovery. We remain committed to supporting Verseon's outstanding scientific work.

Thomas A. Hecht, PhD
Chairman of the Board

Chief Executive's statement

"In 2016, we have advanced all our current drug programs and laid the foundation for accelerating future growth."

Adityo Prakash, Chief Executive Officer

The hard work of our dedicated team, combined with deliberate investments in our infrastructure, have enabled us to complete a number of significant milestones this year.

We have presented comprehensive preclinical data demonstrating the unique properties of our class of anticoagulation drug candidates. These compounds act through a novel mechanism of action and show efficacy comparable to that of marketed anticoagulants in preclinical studies. Unlike current novel oral anticoagulants (NOACs), however, our inhibitors do not disrupt platelet function. This remarkable feature contributes to the drastically reduced bleeding liability in preclinical testing of our compounds compared to the NOACs.

Our extensive preclinical studies have led to the nomination of the first in a series of development candidates for the anticoagulation program. The development candidate shows very low clearance through the kidneys, a finding that was received with particular excitement in the medical community. We are now in the process of fulfilling the regulatory safety and manufacturing requirements necessary to start clinical trials for the candidate.

At the same time, we have advanced our oncology and diabetic macular edema (DME) programs. Verseon's DME candidates have demonstrated good permeability into the eye along with other properties needed for eye drops. We are currently conducting further preclinical studies and expect to present data on this program later in 2017.

Verseon's novel approach to drug design continues to attract a great number of highly qualified individuals. Our team members not only have excellent credentials, but share a common drive to improve the process of drug design and development. As Verseon continues to grow, we aim to maintain the creative, collaborative environment that characterizes our company.

In 2016, we have advanced all our current drug programs and laid the foundation for accelerating future growth. We are excited as we enter 2017 with significant momentum.

Adityo Prakash
Chief Executive Officer

Business review

Designing better anticoagulants

A broad range of preclinical safety and efficacy studies, a critical step toward clinical trials, have shown that our direct thrombin inhibitors are as efficacious as available anticoagulants. In addition, they do not disrupt platelet function, which may explain their observed lower bleeding risk.

First development candidate

We have nominated the first in a series of development candidates for the anticoagulation program. The candidate has low renal clearance, a highly desirable property for patients with impaired kidney function. We anticipate that the development candidate will enter clinical trials toward the end of 2017.

Eye drops for diabetic macular edema

Several series of our plasma kallikrein inhibitors show excellent potency and permeability into the eye in preclinical testing, important prerequisites for topical delivery. Optimization and preclinical testing of our compounds are progressing and we expect to report results on this program later in 2017.

Engaging the scientific community

In 2016, our researchers have presented results at several international conferences (**see box on page 7**). The unique properties of our anticoagulation drug candidates have received positive attention in the medical and scientific communities. Furthermore, we have recruited an international panel of distinguished cardiologists, many of whom have prior experience in clinical trials for anticoagulants, to help us map out long-term strategies as our anticoagulation program progresses toward the clinic.

Business review
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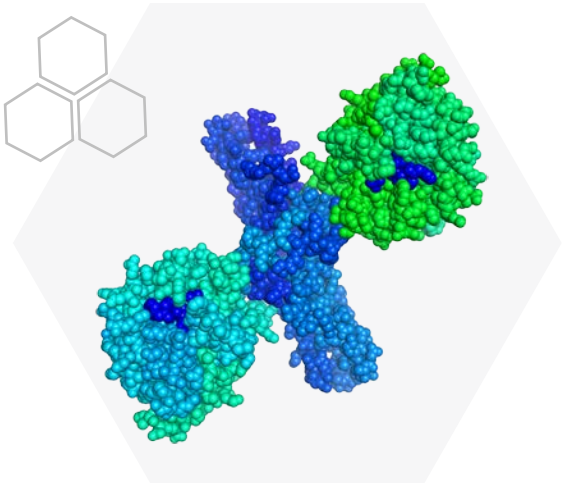


Establishing an efficient platform

We have continued to invest in infrastructure buildout to bring crucial laboratory assays in-house. This reduces our reliance on contract research organizations and dramatically speeds up analyses. In addition, advanced chemistry and bioanalytical equipment enables us to internally develop sophisticated biochemical tests and preclinical models. This strategy provides flexibility and strict quality control, which allow us to efficiently advance our programs.

Preparing for additional programs

Verseon's new headquarters will house our chemistry, biology, and computational research teams and all business and administrative personnel. The facility is expected to accelerate our near-term drug pipeline and will allow us to expand into new drug programs. To support additional concurrent programs, we have also increased the capabilities of our high-performance computer cluster and launched evaluations of targets addressing important disease areas.

Strengthening our team

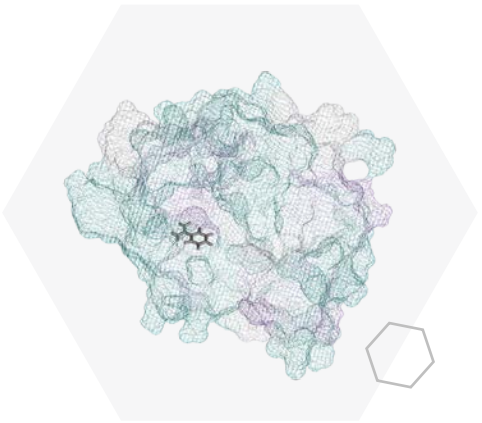
The success of Verseon's platform relies on our team of innovative, highly motivated people. Over the last year, our company almost doubled in size, with more than half of our staff holding PhDs. A balanced mix of new graduates and experienced pharma and biotech industry professionals have joined our chemistry, biology, and computational groups. We also continue to hire individuals with strong backgrounds in corporate administration, finance, accounting, and operations.

Conference presentations in 2016

- 8th Annual Biotech Showcase, *San Francisco*
- 3rd International Conference on Heart & Brain, *Paris*
- BioEurope Spring 2016, *Stockholm*
- 2016 BIO International Convention, *San Francisco*
- American Heart Association's Scientific Sessions, *New Orleans*
- American Society of Hematology Annual Meeting, *San Diego*

Strategic plan

We are laying the groundwork necessary to fully leverage the scalability of our computer-driven platform to create a fast-growing drug pipeline.



Computer-driven

Our team of physicists, chemists, and computer scientists has developed highly accurate, physics-based molecular modeling algorithms that can drive the drug discovery process.

Access to novel chemical matter

We generate a large, virtual, chemically diverse collection of molecules for each program that can cover previously unexplored chemical space. From this collection, our computational platform identifies the most promising binders for drug development.

This approach gives us access to chemical matter that is not usually contained in corporate compound collections and increases our chances of finding novel drug candidates.

Integrated lab processes

A comprehensive chemistry and biology workflow integrates with our computational methods. Performing critical biology in-house whenever practical ensures strict quality standards.

Close-knit collaboration between our computational, medicinal chemistry, and discovery biology departments, and the availability of *in silico* methods throughout the discovery process set Verseon apart from other pharmaceutical companies. This allows us to systematically develop multiple high-quality drug candidates for each program and reduces the time from inception of a drug program to the initiation of clinical trials.

High-value drug pipeline

We have established a diverse pipeline of simultaneously running programs. As we expand our laboratories and computing infrastructure, we intend to initiate further programs targeting additional indications with significant market potential.

To increase shareholder value, we plan to license some drug candidates early, generating near-term revenue. Other candidates can be taken to later-stage clinical trials and eventually to market to capture their full value.

The Verseon process at a glance

- Generate virtual compounds

  Vast, directed collections of diverse, computer-generated, synthesizable molecules replace traditional, static, synthesized compound collections and allow us to find truly novel drugs.

- Identify best binders *in silico*

  Proprietary breakthroughs in physics-based molecular modeling and optimization enable us to accurately predict a set of promising binders even before the molecules have been manufactured.

- Select and optimize candidates

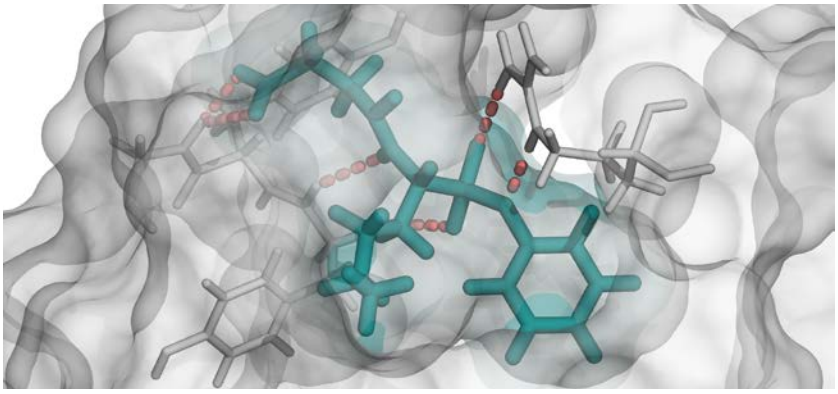
  A selection of compounds is synthesized and subjected to a battery of *in vitro* and *in vivo* tests in our laboratories. Our computational platform can be used to further optimize these candidates.

- Send multiple candidates to the clinic

  Instead of focusing on a single candidate, our platform allows us to nominate multiple, chemically diverse development candidates for each program to advance into clinical trials, reducing risk.

Computer-driven drug discovery

At Verseon, we combine sophisticated, proprietary models of protein-molecule binding and efficient lab processes into a platform that can efficiently develop promising drug candidates.



Our computational platform can target every protein with at least one known three-dimensional structure. It can quickly and reliably find molecules that bind to a target protein and generate drug candidates that are unlikely to be found using traditional drug discovery methods.

Drug discovery at Verseon relies on a unique combination of:

- Computer-driven creation of virtual, drug-like, synthesizable molecules
- Rigorous, physics-based molecular modeling
- High-performance computing on a private cloud
- Optimized lab processes

Computer-designed molecules

Two computational engines, the Molecule Creation Engine (MCE) and Molecule Modeling Engine (MME), form the core of our platform. They provide the chemical diversity and predictive power that drive our competitive advantage.

The Molecule Creation Engine dynamically generates a targeted collection of hundreds of millions of diverse molecules for each program. To assemble these molecules, the MCE applies virtual synthetic reactions to a large set of proprietary chemical building blocks. Our process ensures that all generated molecules are drug-like and synthesizable.

Using physics to find best binders

Subsequently, the Molecule Modeling Engine tests each potential drug designed by the MCE against the target protein and identifies the best binders.

The MME does not rely on heuristics, empirical models, or machine learning, all of which limit the applicability to novel compounds or new protein targets. Instead, the MME applies proprietary, semi-classical models based on quantum mechanics and molecular dynamics, which, together with sophisticated optimization algorithms, allow us to predict protein-molecule binding with unparalleled accuracy.

The MME uses hundreds of billions of computer operations per compound and is deployed in parallel across our private computing cloud. The supply of potential drug candidates provided by the MME is limited only by the amount of computing power we wish to invest toward each program.

From the computer to the clinic

From the variety of options provided by the MME, our medicinal chemists select the most favorable compounds and apply recipes provided by the MCE as guidance for synthesis. Synthesized compounds are then subjected to a battery of *in vitro* and *in vivo* tests in our laboratories to confirm their efficacy and establish their safety. During this process, our scientists use our computational platform to optimize candidates in order to improve their biochemical profile by generating variants with desirable properties.

By advancing a number of promising candidates through extensive preclinical testing and sending several chemically diverse, high quality candidates for each program into clinical trials, we increase the chances of finding novel drugs.

Anticoagulation program

Our drug candidates have excellent preclinical efficacy and bleeding profiles, which may lead to a new class of safer anticoagulants.

Our novel class of direct thrombin inhibitors (VE-DTIs) continue to show efficacy comparable to existing novel oral anticoagulants (NOACs), but substantially lower bleeding liability, in preclinical testing.

Highlights in 2016

- Potential best-in-class drugs

Our compounds are as efficacious as existing anticoagulants in preclinical testing, but with lower bleeding risk.

- No disruption of platelet function

Our drug candidates do not disrupt platelet function, which may explain their low bleeding liability.

- Moving toward the clinic

We have nominated the first development candidate for progression into clinical trials.

- Low renal clearance

The first development candidate shows low renal clearance in preclinical studies, which may provide additional benefits for patients with reduced kidney function.

A new way to bind

The VE-DTIs target thrombin, an important component of the coagulation cascade, through a distinctive mechanism of action, binding in a reversible, covalent manner (**see box on page 11**).

Our anticoagulation candidates are composed of a carrier-warhead pair. Different chemotypes are designed by combining carriers and warheads from a variety of chemical structures. The carriers bind to thrombin with high selectivity and deposit the warhead in the protein active site. There, the warhead forms a covalent bond, inhibiting thrombin's ability to cleave fibrinogen. By this joint action, the carrier and warhead combine selectivity and potency, leading to novel pharmacology.

$12.5 billion
Global anticoagulant market size as of 2015[1]

1 in 4
Deaths in the US caused by heart disease[2]

85.6 million
People in the US living with cardiovascular disease[3]

Cardiovascular disease

Drugs with lower bleeding liability needed

Cardiovascular disease is responsible for one in every four deaths in the US[2]. Many of these conditions, including stroke in non-valvular atrial fibrillation, venous thromboembolism, or acute coronary syndrome, involve blood clots blocking a vein or artery, obstructing blood flow. Anticoagulant drugs are used to prevent blood clots from forming or to keep already existing clots from growing.

Market

As of 2015, the global anticoagulant market was over $12.5 billion, and it is expected to grow to over $18.5 billion by 2018[1].

Opportunity

Today's anticoagulants include warfarin, heparins, and novel oral anticoagulants (NOACs) such as dabigatran (Pradaxa™), rivaroxaban (Xarelto™), apixaban (Eliquis™), and edoxaban (Savaysa™).

The NOACs have several advantages over warfarin and the various heparins, including rapid onset of action, more convenient dosing, less need for constant monitoring, and fewer drug-drug and drug-food interactions. However, now that real-world data outside of clinical trials is available, concerns are growing over several side effects that can be attributed to the inherent bleeding risk associated with these drugs[4].

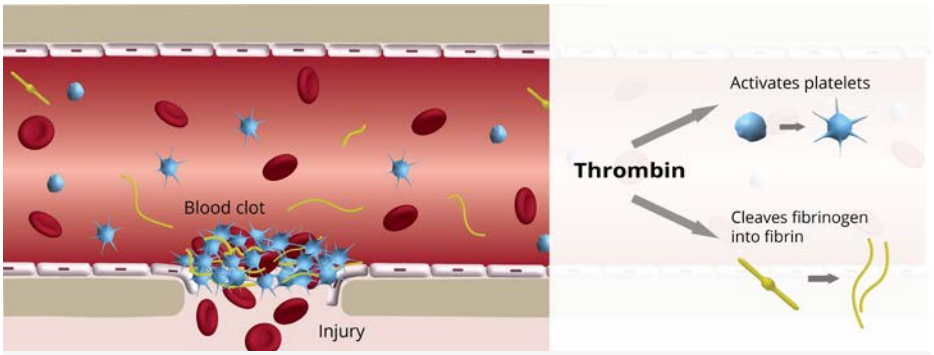
[1] Research & Market, 2015
[2] CDC. Underlying Cause of Death 1999-2013, 2015
[3] www.heart.org, Jan. 2017
[4] Vilchez et al., Therapeutic Advances in Drug Safety (2014)

Anticoagulation program
(continued)

Preserved platelet function

The NOACs treat blood clots by either directly or indirectly inhibiting thrombin production. In addition, these drugs are known to reduce thrombin-mediated platelet activation, which may lead to increased bleeding liability.

At the 2016 American Society of Hematology Annual Meeting, we presented preclinical results demonstrating that the VE-DTIs act differently from the NOACs when it comes to platelets. Several *in vitro* and *in vivo* tests clearly show that the VE-DTIs effectively prevent thrombosis by modulating fibrinogen cleavage and thrombin generation, but do not disrupt platelet function (**see box on page 12**). This provides a biological rationale for their low bleeding risk observed in preclinical studies.



Blood clotting

When a blood vessel is damaged, platelets are activated and aggregate at the site of the injury to form a clot and stop blood loss. At the same time, thrombin converts the glycoprotein fibrinogen into fibrin monomers, which can form a mesh at the site of the injury. This mesh traps platelets and red blood cells, forming the backbone of a stable blood clot, which halts bleeding.

Thrombin

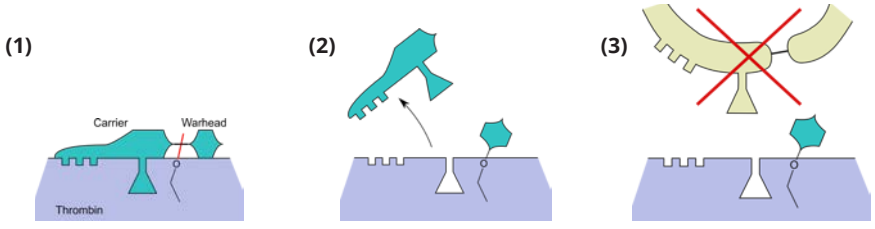
The serine protease thrombin contributes to the blood clotting process in several decisive ways. It cleaves fibrinogen to fibrin and activates platelets and other coagulation factors to enhance hemostasis. In addition, thrombin figures prominently in inflammation and wound healing. Its relevance in blood clotting has made thrombin an excellent, validated anticoagulation target that is inhibited, either directly or indirectly, by current novel oral anticoagulants (NOACs).

Platelets

Activated platelets are another key ingredient in blood clotting and hemostasis and also promote wound healing and healthy tissue growth. Drugs such as clopidogrel (Plavix™) treat blood clots by directly targeting platelets. The NOACs, on the other hand, do not directly target platelets. However, they are known to indirectly reduce platelet activation by inhibiting thrombin.

Verseon anticoagulants at work

(1) The carrier attaches to thrombin and delivers the warhead to a specific binding site. (2) The warhead covalently binds to thrombin, and the carrier leaves the site. (3) The warhead blocks the binding site so that fibrinogen cannot dock and fibrinogen cleavage into fibrin is inhibited.



Anticoagulation program
(continued)

> “Maintaining platelet function while preventing thrombosis could be an important approach to reduce bleeding risk. This work may lead to a new generation of safer blood thinners.”
>
> Dr. John Deanfield, Professor of Cardiology at University College, London

Low bleeding risk

In two well-established preclinical safety models, the VE-DTIs show significantly reduced bleeding liability compared to the NOACs (**see box on page 13**), a feature, which could make the VE-DTIs best-in-class therapeutics. As multiple side effects of the current NOACs are attributed to their inherent bleeding liability, better control of this aspect may allow us to develop safer anticoagulants.

Strengthening our IP

The US Patents and Trademark office issued the first two patents covering our serine protease inhibitors, including the VE-DTIs, in early January 2017. These patents are an important milestone in our ongoing effort to strengthen the intellectual property protection for our drug programs.

First development candidate

In 2016, we have selected the first development candidate for this program, VE-1902.

At the 2016 American Heart Association’s Scientific Sessions, we presented detailed *in vitro* and *in vivo* data showing that VE-1902 is potent, selective, and effectively prevents thrombosis, while displaying low bleeding risk.

Undisrupted platelet function

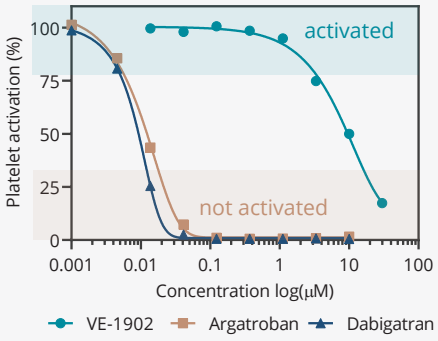
Extensive *in vitro* and *in vivo* studies show that the VE-DTIs effectively inhibit fibrinogen cleavage and thrombin generation, but do not disrupt platelet function.

Our *in vitro* studies demonstrate that even low concentrations of the anticoagulants argatroban and dabigatran completely suppress platelet activation (**see top figure**). In contrast, almost 100 percent of platelets are activated up to high doses of VE-DTI. This illustrates that our compounds are much weaker inhibitors of platelet activation *in vitro*.

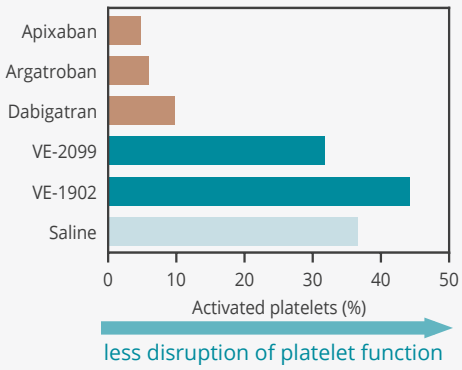
This effect persists in *in vivo* studies using flow cytometry with platelet-specific antibodies. We have monitored platelet activity in variants of the well-established arteriovenous shunt thrombosis (**see bottom figure**) and thrombin-induced thromboembolism models (data not shown). Again, we observe that in the presence of apixaban, argatroban, or dabigatran only a small fraction of platelets is activated as a result of strongly inhibited thrombin-mediated platelet activation.

VE-2099 and VE-1902, two representatives for our class of VE-DTIs, however, show platelet activation comparable to saline. This confirms *in vivo* that the VE-DTIs as a class are much weaker inhibitors of platelet activation. Our studies indicate that this behavior is tied to the VE-DTIs’ novel mechanism of action and provides an explanation for their lower bleeding risk **(see box on page 13)**.

***In vitro* platelet activation**



***In vivo* platelet activation** (arteriovenous shunt)



Anticoagulation program
(continued)

The low bleeding liability and renal clearance of our first development candidate are examples of how novel chemical matter can potentially overcome the deficiencies of existing drugs.

Furthermore, the candidate has a pharmacokinetic profile well-suited for oral dosing and is well-tolerated up to high doses in *in vivo* toxicity tests.

Low renal clearance

We have also conducted preclinical studies of excretion for VE-1902.

The current NOACs are cleared to various degrees through the kidneys, putting the many patients with reduced renal function in need of anticoagulation therapy at higher risk of bleeding. Such drugs can thus be contraindicated or require dose adjustments in this patient population.

In contrast, our preclinical studies show that VE-1902 is essentially not eliminated through the kidneys. This suggests that our first development candidate may be more suitable for patients with impaired renal function, a result that was met with significant interest in the medical community.

Toward the clinic

During the upcoming months, we will focus our efforts in this program on completing the requirements for regulatory filings for clinical trials.

Our team will work with contract research organizations to conduct preclinical toxicology and safety studies in two species, perform long-term stability tests, develop an optimal formulation, and finalize the necessary chemistry, manufacturing, and controls processes to prepare a drug product for human trials. We anticipate that the development candidate will enter Phase I clinical trials in 2017.

In preparation, we are recruiting globally recognized doctors from Europe and the US with expertise in the NOAC clinical trials to map out Phase II and III strategies and help promote our program to the medical community.

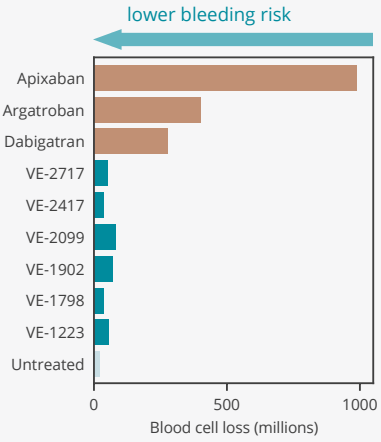
In parallel, we will continue preclinical studies of several other promising candidates in the anticoagulation program and expect to select additional development candidates in the near future.

Low bleeding risk

We have conducted two well-established preclinical bleeding models, the tail and saphenous vein bleed time tests, to assess the bleeding liability of the VE-DTIs. The tests were conducted at equivalent efficacious doses.

In the tail bleed model shown here, bleeding liability is measured by both the time to bleeding stoppage and the amount of total blood cells lost during the experiment.

After dosing of apixaban, dabigatran, or argatroban, significantly more blood cells are lost compared to untreated within the duration of the experiment (**see figure**). Combined with their longer bleeding stoppage time (data not shown), this is indicative of their increased bleeding liability.



Verseon's anticoagulants, on the other hand, show drastically lower blood cell loss compared to the NOACs, and bleeding times similar to untreated (data not shown). This highlights their significantly reduced bleeding risk.

Diabetic macular edema program

We are developing topical treatments for diabetic macular edema that target plasma kallikrein.

In our diabetic macular edema (DME) program, we design novel compounds that can be topically administered. Our drug candidates target one of the underlying causes of the disease rather than just treating the late-stage symptoms.

DME drugs today

The majority of today's DME drugs are repurposed anticancer medications, large biologics that require regular injections directly into the eye. These compounds target the growth factor VEGF, a kinase protein involved with blood vessel growth.

Plasma kallikrein—an alternate target

The serine protease plasma kallikrein provides an effective alternate drug target for the treatment of DME. The kallikrein-kinin system mediates inflammation, blood circulation, and coagulation and is activated during vascular injury. Plasma kallikrein liberates bradykinin, an inflammatory peptide which causes blood vessels to dilate to control blood pressure. Overproduction of bradykinin, triggered, for example, by excessive kallikrein activity in response to diabetes, can result in retinal permeability, which damages the retina and can eventually lead to central vision loss associated with DME.

Rarely explored binding space

We exploit dissimilarities between the active sites of plasma kallikrein and thrombin (**see illustration on page 15**) to design novel, selective drug candidates. Verseon's binders target regions of the plasma kallikrein active site that had, until now, rarely been exploited and that provide a new mechanism of inhibition. By taking advantage of these novel binding patterns, we have developed multiple promising candidates with high potency, selectivity, and additional properties suitable for administration as eye drops.

Diabetic macular edema

Topical drugs that treat the root cause of the disease desired

$6.5 billion
Global diabetic retinopathy market in 2015[1]

1 in 3
People living with diabetes for 20+ years will develop DME[2]

21 million
People worldwide suffer from diabetic macular edema[3]

Diabetic retinopathy, including diabetic macular edema, is among the leading causes of vision loss in today's aging population. One in three people living with diabetes for more than 20 years will develop diabetic macular edema (DME), a disorder of the retina that accounts for most central vision loss in diabetic retinopathy.

Market

As of 2015, the global diabetic retinopathy market, including DME, was approximately $6.5 billion, and it is expected to grow to about $11 billion by 2023[1].

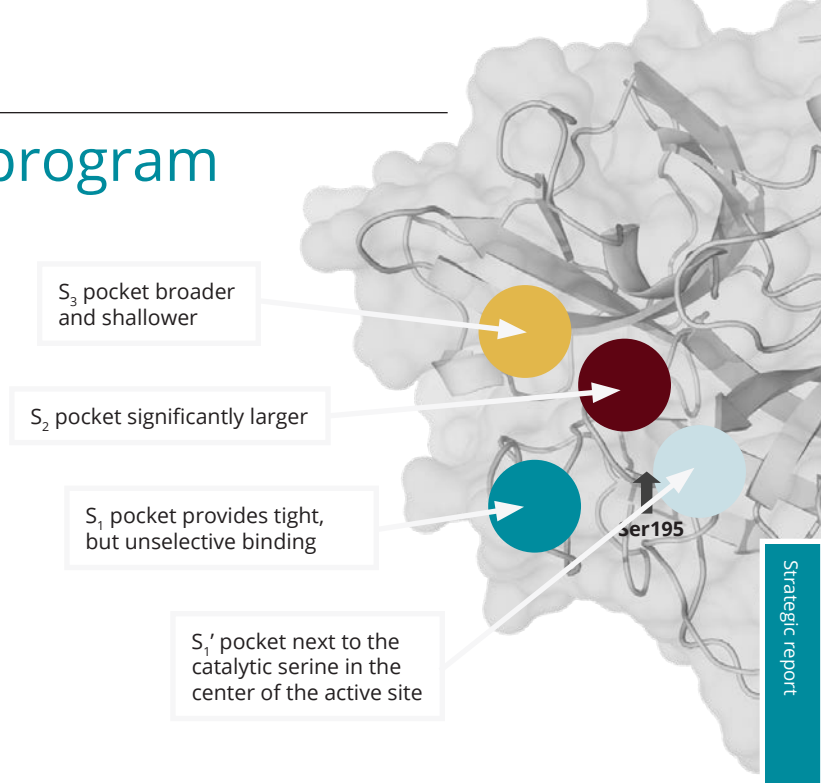
As the incidence of diabetes increases, the number of patients suffering from diabetic eye disease is expected to escalate, with the number of adults suffering from diabetes reaching 1 in 3 by 2050[4].

Opportunity

The current standard of care for DME includes laser treatments and injections into the eye of corticosteroids or agents targeting the growth factor VEGF. Three injectable repurposed anticancer agents, Avastin™ (bevacizumab), Lucentis™ (ranibizumab), and Eylea™ (aflibercept), dominate the current DME market, but there remains an unmet need for topical drugs and agents targeting the root causes of the disease.

[1] Global Market Insights, 2016
[2] Romero-Aroca P. World Journal of Diabetes. 2011
[3] Diabetes Care, 2012
[4] CDC, 2017

Diabetic macular edema program
(continued)



Highlights in 2016

► Good permeability into the eye

We have designed multiple series of compounds with high potency and selectivity that successfully reach the retina when applied as eye drops in *ex vivo* experiments.

Systematic optimization

To optimize our drug candidates and identify the molecules with the greatest potential, we have implemented in-house a number of advanced assays. Our tests assess functional and enzymatic activity, solubility, selectivity, and stability, among other factors. In addition, we have used our computational platform to systematically design a range of chemically distinct, optimized variants with good characteristics across our range of assays.

Developing eye drops

A crucial factor for topical delivery is the ability of our compounds to pass through the eye into the retina (**see box below**). In *ex vivo* experiments, a number of our drug candidates have shown excellent permeability and good concentrations in the retina, confirming their potential as eye drops.

Apart from the obvious patient benefits of topical administration over intravitreous injections, eye drops are linked to lower systemic toxicity, resulting in reduced regulatory hurdles and simplified IND-enabling studies that should allow for accelerated clinical development.

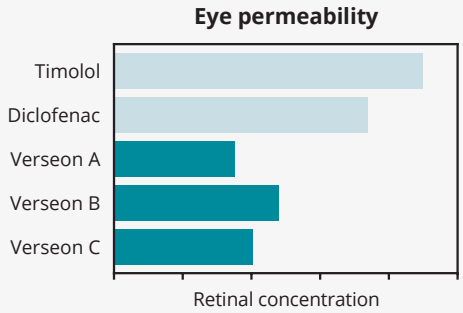
We are currently conducting further *in vivo* preclinical tests and expect to report more results on this program in the middle of 2017.

Permeability into the eye

For topical delivery to the back of the eye, drug candidates must be able to pass through the eye into the retina. To study this route of administration, we apply compound in an appropriate ophthalmologic formulation and measure the concentration in the retina (**see figure**). In this way, our *ex vivo* eye permeability experiments approximate the administration of eye drops.

The established eye-drop medications timolol, an eye pressure regulator, and diclofenac, a nonsteroidal anti-inflammatory drug, are used as positive controls.

Several of our drug candidates show transcorneal permeability comparable to the controls and reach retinal concentrations well above those needed for efficacy in functional assays of kallikrein generation. This indicates that they successfully reach the retina and makes them good candidates for development as eye drops.



Oncology program

Our anticancer drug candidates have demonstrated potency and efficacy in multiple cancer cell lines.

Our oncology program focuses on the development of anticancer drugs with a novel target mode of action.

Candidates with improved potency

Several new series of compounds show improved anticancer potency. In a sensitive functional assay studying the impact of our drug candidates on how endothelial cells form tubes as precursors of blood vessels (angiogenesis), our compounds successfully suppress the growth of new blood vessels in a concentration-dependent manner.

The cell division cycle

In cell growth arrest assays in various cancer cell lines, including hepatocellular carcinoma and cervical cancer cells, we study the impact of our compounds on the cell cycle. Our drug candidates have demonstrated efficacy in cancer cell lines with multiple cell morphologies.

We continue to optimize our family of anticancer compounds to improve their pharmacokinetic profile and develop additional assays in-house to study their neurotoxicity potential, including neuronal stem cell cultures. In addition, we are testing a range of transporters to address issues of drug resistance.

Highlights in 2016

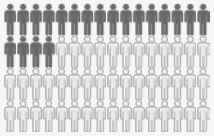
- Better anticancer compounds

We have designed a novel class of anticancer agents with improved potency and efficacy across multiple cancer cell lines with different cell morphologies.

Oncology

Ongoing need for anticancer drugs with fewer side effects

$100 billion
Global oncology market as of 2015[1]



455 per 100,000
Cancer incidence in the US as of 2016[2]

1.7 million
People newly diagnosed with cancer in the US in 2016[2]

In the US, cancer has been the second most common cause of death for decades and has even surpassed heart disease as the number one cause of death in several states[3]. In 2016, 1.7 million people in the US were newly diagnosed with some form of cancer.

Market

As of 2015, the global cancer market was over $100 billion and is expected grow to more than $148 billion by 2020, with a market size of $79.1 billion in the US alone[1].

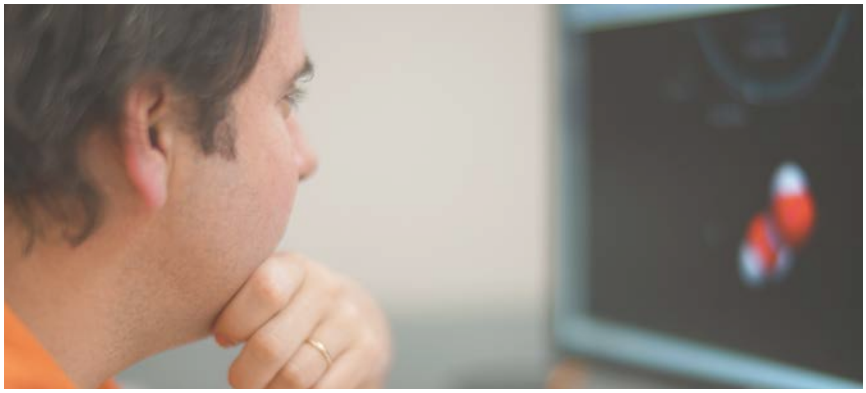
Opportunity

A variety of cancer treatments are available today, including surgery, chemotherapy, radiation therapy, and targeted therapy. Many of these, however, have shown serious side effects and are prone to drug resistance.

[1] IMS Health MIDAS, Dec. 2015
[2] www.cancer.gov, 2017
[3] www.cdc.gov, 2017

Future programs

Verseon's computer-driven platform allows us to select high-value programs from a variety of important disease areas.



Our computer-driven platform is compatible with virtually any disease-causing protein with known three-dimensional structure. Such flexibility allows us to target a wide variety of today's challenging diseases.

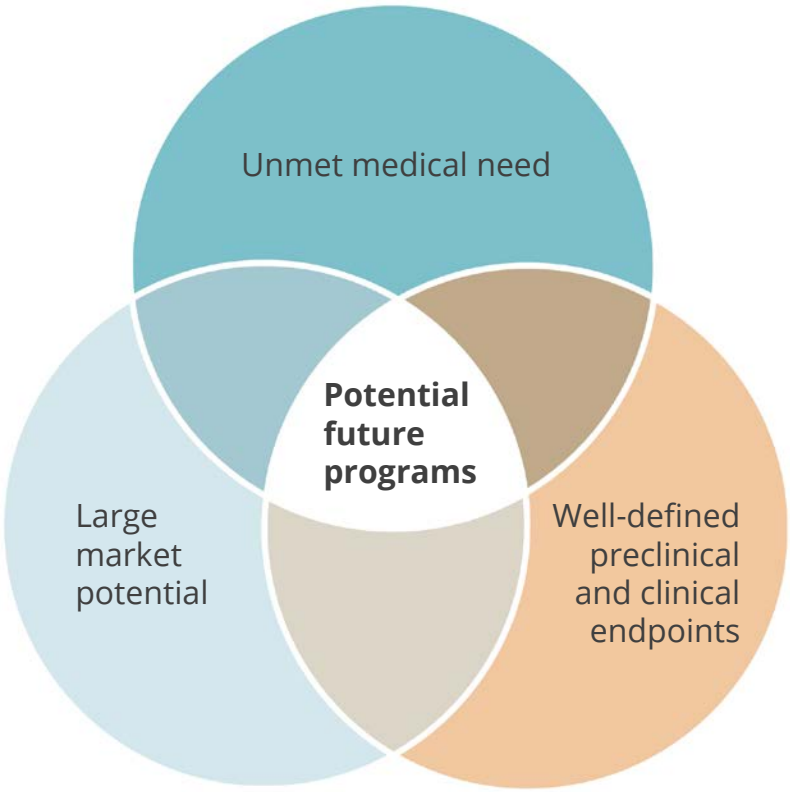
Selecting disease areas

Supported by medical experts, we explore indications that are inadequately served by existing drugs. We identify programs with significant market potential by factoring in disease incidence, market size, competition, and regulatory environment.

We prioritize targets that have been validated for a given therapeutic area and that have clearly defined preclinical and clinical endpoints.

Expanding our pipeline

Currently, our scientists are investigating a range of attractive indications in collaboration with internal and external experts. We have identified a number of promising potential disease areas and continue to evaluate them according to a number of selection criteria.



Finance review

In 2016, Verseon has continued to fund its drug programs in anticoagulation, diabetic macular edema, and oncology. In addition, we have made substantial investments in an infrastructure buildout that includes new facilities, laboratory equipment, and high-performance computing. We expect to complete the current infrastructure buildout in mid 2017.

Results for the year ended December 31, 2016

- Net loss was $19.5 million or $0.13 per basic share, compared to a net loss for 2015 of $7.7 million or $0.06 per basic share.
- Research and development expenses were $11.5 million, compared to $4.5 million in the previous year, primarily attributable to acceleration of our drug programs.
- General and administrative expenses were $5.8 million, compared to $5.2 million in the previous year.
- Non-cash expenses include stock based compensation of $0.8 million, compared to $1.4 million in 2015, and also a currency exchange loss of $2.6 million, compared to a gain of $1.9 million in 2015 resulting from the mark to market fluctuations in cash balances held in pound sterling.
- Total assets on the balance sheet stood at $69.6 million, compared to $85.7 million at the end of 2015.
- Cash, cash equivalents, and short term investments stood at $46.9 million, compared to $74.7 million at the end of 2015.
- Property and equipment totaled $22.3 million, compared to $9.8 million at the end of 2015.

Research and development facility ownership subsidiary

In August 2015, we purchased a property in Fremont, California under our wholly owned subsidiary, VRH1 LLC. The property includes a building that has been undergoing a buildout to tailor it to our specific laboratory needs. Upon completion, the facility will house chemistry and biology laboratories, computational infrastructure, and corporate offices.

Capital structure

At December 31, 2016, 151,414,659 shares of Common Stock were outstanding, as compared to 150,878,815 shares of Common Stock outstanding at December 31, 2015.

Anticoagulation program subsidiary

Our interest in Nirog, the anticoagulation program subsidiary, increased to 76.8% at the end of 2016 from 72.6% at the beginning of the year.

Risks and uncertainties

Research and development risks

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

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

Risks related to operations

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

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

We rely on third parties for a portion of our scientific work. If this work does not meet sufficient quality standards, operations might be negatively impacted.

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

Risks related to intellectual property

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

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

Financial risks

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

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

Risks related to securities

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

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

Governance

Board of Directors

Thomas A. Hecht, PhD
Non-Executive Chairman

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

Alastair Cade
Non-Executive Director

Mr. Cade co-founded Daniel Stewart Securities PLC, a London based corporate finance house and broker and served as Managing Director. Subsequently, Mr. Cade set up a private investment vehicle concentrating on agriculture and renewable energy. He co-founded Mytrah Energy (UK) Limited where he served as Executive Director and as a director of Mytrah Energy India Limited. Mr. Cade received his MSc in Economics from St. Andrews University.

Grover Wickersham
Non-Executive Director

Mr. Wickersham has over forty years of experience in corporate law and finance. He is a founder and the Vice Chairman of S&W Seed, a US publicly traded agricultural company. He is the Chairman of the Board of Trustees of the mutual funds of Fisher Investments and the general partner of Glenbrook Capital, a partnership that invests in emerging growth companies. He served with the US Securities & Exchange Commission as Staff Attorney in Washington, DC, and as an SEC Branch Chief in Los Angeles. He received his AB from University of California, Berkeley, his MBA from Harvard Business School, and his JD from the University of California, Hasting College of the Law, and is a practicing member of the California State Bar.

Adityo Prakash
Chief Executive Officer

Prior to founding Verseon, Mr. Prakash was co-founder and CEO of Pulsent Corporation. He grew the company over five years and was instrumental in bringing Pulsent's video compression and signal processing technology to the marketplace. He is also an inventor on 35 patents. Mr. Prakash received his BS in Mathematics and Physics from the California Institute of Technology.

Eniko Fodor
Chief Operating & Chief Financial Officer

Prior to founding Verseon, Ms. Fodor co-founded Pulsent Corporation where she was the Chief Operating Officer. She played a pivotal role in growing the company and developing highly effective operating, marketing, and intellectual property strategies. She is also an inventor on 17 patents. Ms. Fodor received her BS in Physics from Universitatea Bolyai in Romania.

Directors' report

The directors of the Company (Directors) present their report and audited financial statements for the year ended December 31, 2016.

Principal activity

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

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

Dividends

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

Employee involvement

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

Directors and their interests

The Directors as of the date of this report are as follows:

Executive

- Adityo Prakash
- Eniko Fodor

Non-executive

- Thomas Hecht, PhD
- Grover Wickersham
- Alastair Cade

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

Advisers

Nominated adviser and joint broker

- Cenkos Securities plc

  6.7.8 Tokenhouse Yard
  London EC2R 7AS
  UK

Joint brokers

- Cantor Fitzgerald Europe

  One Churchill Place
  Canary Wharf
  London E14 5RB
  UK

- Mirabaud Securities LLP

  33 Grosvenor Place
  London SW1X 7HY
  UK

Auditor

- Deloitte LLP

  Abbots House
  Abbey St
  Reading RG1 3BD
  UK

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

Registrars

- Computershare Investor Services (Jersey) Limited

  Queensway House
  Hilgrove Street
  St Helier JE1 1ES
  Jersey

This report was approved by the Board on March 13, 2017.

Eniko Fodor
Executive Director

Governance report

Principles of good corporate governance

Verseon is committed to high standards of corporate governance. The Directors recognize the importance of good governance and comply with the provisions of the Corporate Governance Code for Small to Mid-Sized Quoted Companies, published from time to time by the Quoted Companies Alliance, to the extent that they believe it is appropriate in light of the size, stage of development, and resources of the Company.

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

Application of principles

Board of Directors

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

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

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

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

The Board is divided into three classes, as nearly equal in number as possible, designated Class I, Class II, and Class III. Class I Directors Thomas Hecht and Grover Wickersham were reelected at the 2016 annual general meeting to a three-year term expiring at the Company's annual general meeting in 2019. Class II Director Alastair Cade is serving a term expiring at the Company's annual general meeting in 2017. Class III Directors Adityo Prakash and Eniko Fodor are serving a term expiring at the Company's annual general meeting in 2018.

Relationship with shareholders

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

On behalf the Board

Thomas A. Hecht, PhD
Chairman

March 13, 2017

Compensation report

Compensation Committee

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

The Compensation Committee comprises Alastair Cade, who acts as the Chairman of the committee, and Thomas Hecht. The Compensation Committee meets as and when necessary.

Compensation policy

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

Directors' compensation

In 2016, Mr. Cade received his compensation in the amount of $60 thousand in cash as compared to $45 thousand in 2015. In addition, the Company engaged Chaka Investments UK Limited, where Mr. Cade is the director, to provide consulting service for an aggregated amount of $0.2 million in 2016, as compared to $0.1 million in 2015.

In 2016 and 2015, Dr. Hecht received his compensation in the form of Restricted Stock Units (RSU). In 2016, he was granted RSU for 28,037 shares of Common Stock, compared to 17,921 in 2015. A total of 22,665 RSU vested in 2016, compared to 8,644 in 2015.

In 2016, Mr. Wickersham received his compensation in the form of $50 thousand in cash and a grant of RSUs for 15,463 shares of Common Stock, which vest in 2017. In 2015, Mr. Wickersham's compensation was $45 thousand in cash.

The employment agreements with Mr. Prakash and Ms. Fodor provide each of them an annual salary of $0.3 million and, at the discretion of the Board, a performance bonus. The agreements contain provisions setting forth severance benefits upon termination depending on whether employment is terminated with or without cause, with or without good reason or upon death or disability. The agreements include a proprietary information and inventions agreement relating to confidentiality of the Company's proprietary information and the assignment of inventions and intellectual property. For the years ended December 31, 2016 and 2015, total annual salary earned by Mr. Prakash and Ms. Fodor were $0.3 million each.

Directors' interests

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

Name	Number of Shares
Alastair Cade	260,553*
Eniko Fodor	31,008,486
Thomas Hecht	38,318
Adityo Prakash	31,528,281
Grover Wickersham	7,731

*Beneficial ownership together with Chaka Investments UK Limited

On behalf of the Compensation Committee

Alastair Cade
Chairman, Compensation Committee

March 13, 2017

Audit Committee report

Role and responsibilities

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

Membership and meetings

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

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

Financial reporting

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

The Committee shall review and challenge where necessary:

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

Internal control and risk management

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

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

On behalf of the Audit Committee

Grover Wickersham
Chairman, Audit Committee

March 13, 2017

Directors' responsibilities

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

The AIM Rules require the Directors to prepare financial statements for each financial year. Under those rules, the Directors have elected to prepare the financial statements in accordance with United States Generally Accepted Accounting Practice ("US GAAP").

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

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable, and understandable information, and
- provide additional disclosures when compliance with the specific requirements in US GAAP are insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the Company's financial position and financial performance.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with US GAAP and the AIM Rules. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Financial statements

Financial statements

Independent auditor's report

to the Directors of Verseon Corporation

We have audited the non-statutory financial statements of Verseon Corporation for the year ended December 31, 2016, which comprise the consolidated balance sheets, the consolidated statements of operations and comprehensive loss, the consolidated statements of cash flows, the consolidated statements of changes in stockholders' equity, and the related notes A to F. The financial reporting framework that has been applied in their preparation is applicable law and accounting principles generally accepted in the United States of America (United States Generally Accepted Accounting Principles).

This report is made solely to the Company's Directors in accordance with the engagement letter dated February 15, 2017, and solely for the purpose of satisfying the filing requirements of the AIM Rules for Companies. Our audit work has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as of December 31, 2016 and of its loss for the year then ended; and
- have been properly prepared in accordance with United States Generally Accepted Accounting Principles.

Deloitte LLP
Chartered Accountants
Reading
United Kingdom
March 13, 2017

Consolidated balance sheets

As of December 31, 2016 and 2015

(US $'000, except share amounts and par values)	Note	December 31, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents	1	29,225	41,764
Short-term investments	1	17,643	32,911
Prepaid expenses and other current assets	2	370	168
Total current assets		47,238	74,843
Property and equipment, net	3	22,326	9,839
Long-term investments	1	—	998
Total assets		**69,564**	**85,680**
Liabilities and stockholders' equity			
Current liabilities			
Accounts payable		2,067	678
Accrued liabilities	5	2,550	929
Short-term debts	6	—	219
Total current liabilities		**4,617**	**1,826**
Total liabilities		**4,617**	**1,826**
Commitments and contingencies	12		
Stockholders' equity	13		
Common stock—$0.001 par value, 300,000,000 shares authorized as of December 31, 2016 and 2015, respectively, 151,414,659 and 150,878,815 shares issued and outstanding as of December 31, 2016 and 2015, respectively.		151	151
Additional paid-in capital		136,646	135,808
Loan receivable from stockholders		(14,830)	(14,541)
Accumulated deficit		(60,728)	(41,246)
Accumulated other comprehensive loss		(5)	(36)
Total stockholders' equity		**61,234**	**80,136**
Non-controlling interests in subsidiaries	4	3,713	3,718
Total equity		**64,947**	**83,854**
Total liabilities and stockholders' equity		**69,564**	**85,680**

See accompanying notes to consolidated financial statements.

These financial statements were approved by the Board of Directors on March 13, 2017 and signed on its behalf by:

Adityo Prakash
Chief Executive Officer

Consolidated statements of operations and comprehensive loss

For the year ended December 31, 2016 and 2015

(US $'000, except share and per share amounts)	Note	For the year ended December 31, 2016	2015
Operating expenses			
Research and development expenses		11,510	4,541
General and administrative expenses		5,828	5,213
Total operating expenses		**17,338**	**9,754**
Operating loss		**(17,338)**	**(9,754)**
Interest expense		(3)	(179)
Interest income		460	369
Currency exchange (loss) gain		(2,606)	1,871
Loss before income taxes		**(19,487)**	**(7,693)**
Income tax provision	7	—	—
Net loss		**(19,487)**	**(7,693)**
Net loss attributable to non-controlling interests		5	2
Net loss attributable to Verseon Corporation		**(19,482)**	**(7,691)**
Net loss		(19,487)	(7,693)
Unrealized gains (losses) on available-for-sale securities		31	(36)
Total comprehensive loss		**(19,456)**	**(7,729)**
Comprehensive loss attributable to non-controlling interests		5	2
Comprehensive loss attributable to Verseon Corporation		**(19,451)**	**(7,727)**
Net loss attributable to Verseon Corporation common stockholders per share—basic and diluted	8	(0.13)	(0.06)
Weighted-average shares of stock outstanding used in computing net loss per share—basic and diluted		151,339,342	136,092,491

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

For the years ended December 31, 2016 and 2015

(US $'000)	For the year ended December 31, 2016	2015 As restated (Note A)
Cash flows from operating activities		
Net loss	(19,487)	(7,693)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	298	42
Currency exchange loss (gain) from remeasurement	2,612	(1,871)
Stock-based compensation expense	767	1,365
Interest earned from loan receivable from stockholders	(294)	(317)
Changes in assets and liabilities		
Increase in prepaid expenses and other current assets	(202)	(139)
Increase in accounts payable	86	285
Increase (decrease) in accrued liabilities	79	(1,324)
Net cash used in operating activities	**(16,141)**	**(9,652)**
Cash flows from investing activities		
Purchases of property and equipment	(9,895)	(9,628)
Purchases of available-for-sale securities investments	(28,665)	(34,913)
Maturities of available-for-sale securities investments	44,712	747
Sales of available-for-sale securities investments	250	221
Net cash provided by (used in) investing activities	**6,402**	**(43,573)**
Cash flows from financing activities		
Proceeds from issuance of Common Stock in initial public offering, net of issuance costs	—	92,494
Proceeds from exercise of stock options and warrants	31	462
Proceeds from issuance of equity in Nirog	—	15
Proceeds from issuance of debt	—	1,500
Repayment of debt	(219)	(1,370)
Net cash (used in) provided by financing activities	**(188)**	**93,101**
Net (decrease) increase in cash and cash equivalents	**(9,927)**	**39,876**
Effect of currency exchange rate changes	**(2,612)**	**1,871**
Cash and cash equivalents at the beginning of the period	**41,764**	**17**
Cash and cash equivalents at the end of the period	**29,225**	**41,764**

Consolidated statements of cash flows

For the years ended December 31, 2016 and 2015 (continued)

(US $'000)	Note	For the year ended December 31, 2016	2015
Supplemental disclosure of non-cash investing and financing activities			
Conversion of Preferred Stock to Common Stock upon initial public offering	13	—	12,309
Conversion of debts to Common Stock upon initial public offering	13	—	1,952
Conversion of stock subscription money to Common Stock	13	—	3,073
Increased investment in Nirog upon initial public offering	13	—	5,018
Issuance of warrants for Common Stock in connection with initial public offering	13	—	1,186
Non-cash exercise of stock options and warrants		—	1,007
Purchases of property and equipment under accounts payable and accrued liabilities		2,890	172
Loan receivable from stockholders for Common Stock and Preferred Stock	13	—	(91)

Interest payment was $83 thousand in 2016 and $594 thousand in 2015.
No income taxes were paid in 2016 and 2015.

See accompanying notes to consolidated financial statements.

Consolidated statements of stockholders' equity

For the years ended December 31, 2016 and 2015

(US $'000)	Class A Preferred Stock	Class B Preferred Stock	Class Y Common Stock	Class Z Common Stock	Common Stock at par	Additional paid-in capital
Balance at December 31, 2014	**6,477**	**5,832**	**—**	**14,261**	**—**	**4,986**
Exercise of stock options and warrants—Class Z Common Stock	—	—	—	107	—	—
Conversion of stock subscription money	—	—	—	3,073	—	—
Conversion of existing stock into new Common Stock upon initial public offering	(6,477)	(5,832)	—	(17,441)	112	29,638
Conversion of debt into Common Stock upon initial public offering	—	—	—	—	1	1,951
Shares exchange with Nirog unitholders	—	—	—	—	5	5,013
Issuance of Common Stock in initial public offering, net of issuance costs	—	—	—	—	32	91,276
Exercise of stock options and warrants—Common Stock	—	—	—	—	1	479
Issuance of shares from Restricted Stock Units	—	—	—	—	*	*
Loans to stockholders	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	2,465
Investment in Nirog	—	—	—	—	—	—
Net loss	—	—	—	—	—	—
Net loss attributable to non-controlling interests	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—
Balance at December 31, 2015	**—**	**—**	**—**	**—**	**151**	**135,808**
Exercise of stock options and warrants — Common Stock	—	—	—	—	*	31
Issuance of shares from Restricted Stock Units	—	—	—	—	*	*
Loans to stockholders	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	807
Net loss	—	—	—	—	—	—
Net loss attributable to non-controlling interests	—	—	—	—	—	—
Other comprehensive gain	—	—	—	—	—	—
Balance at December 31, 2016	**—**	**—**	**—**	**—**	**151**	**136,646**

Consolidated statements of stockholders' equity

For the years ended December 31, 2016 and 2015 (continued)

Stock subscription money	Loan receivable from stockholders	Accumulated deficit	Other comprehensive gain (loss)	Total stockholders' equity (deficit)	Non-controlling interest	Total equity (deficit)
3,073	**(14,133)**	**(33,555)**	**—**	**(13,059)**	**8,718**	**(4,341)**
—	—	—	—	107	—	107
(3,073)	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	1,952	—	1,952
—	—	—	—	5,018	(5,018)	—
—	—	—	—	91,308	—	91,308
—	—	—	—	480	—	480
—	—	—	—	*	—	*
—	(408)	—	—	(408)	—	(408)
—	—	—	—	2,465	—	2,465
—	—	—	—	—	20	20
—	—	(7,693)	—	(7,693)	—	(7,693)
—	—	2	—	2	(2)	—
—	—	—	(36)	(36)	—	(36)
—	**(14,541)**	**(41,246)**	**(36)**	**80,136**	**3,718**	**83,854**
—	—	—	—	31	—	31
—	—	—	—	*	—	*
—	(289)	—	—	(289)	—	(289)
—	—	—	—	807	—	807
—	—	(19,487)	—	(19,487)	—	(19,487)
—	—	5	—	5	(5)	—
—	—	—	31	31	—	31
—	**(14,830)**	**(60,728)**	**(5)**	**61,234**	**3,713**	**64,947**

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

See accompanying notes to consolidated financial statements.

Consolidated statements of stockholders' equity

For the years ended December 31, 2016 and 2015 (continued)

(Shares)	Class A Preferred Stock	Class B Preferred Stock	Class Y Common Stock	Class Z Common Stock	Common Stock	Total shares outstanding
Balance at December 31, 2014	**6,830,102**	**2,188,773**	**15,000,000**	**58,944,641**	**—**	**82,963,516**
Exercise of stock options and warrants—Class Z Common Stock	—	—	—	1,369,421	—	1,369,421
Conversion of stock subscription money	—	—	—	3,157,894	—	3,157,894
Conversion of existing stock into new Common Stock upon initial public offering	(6,830,102)	(2,188,773)	(15,000,000)	(63,471,956)	111,509,706	24,018,875
Conversion of debt into Common Stock upon initial public offering	—	—	—	—	635,418	635,418
Shares exchange with Nirog unitholders	—	—	—	—	5,025,738	5,025,738
Issuance of Common Stock in initial public offering, net of issuance costs	—	—	—	—	32,569,047	32,569,047
Exercise of stock options and warrants—Common Stock	—	—	—	—	1,112,262	1,112,262
Issuance of shares from Restricted Stock Units	—	—	—	—	26,644	26,644
Loans to stockholders	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—
Investment in Nirog	—	—	—	—	—	—
Net loss	—	—	—	—	—	—
Net loss attributable to non-controlling interests	—	—	—	—	—	—
Other comprehensive loss	—	—	—	—	—	—
Balance at December 31, 2015	**—**	**—**	**—**	**—**	**150,878,815**	**150,878,815**
Exercise of stock options and warrants—Common Stock	—	—	—	—	476,166	476,166
Issuance of shares from Restricted Stock Units	—	—	—	—	59,678	59,678
Loans to stockholders	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—
Net loss	—	—	—	—	—	—
Net loss attributable to non-controlling interests	—	—	—	—	—	—
Other comprehensive gain	—	—	—	—	—	—
Balance at December 31, 2016	**—**	**—**	**—**	**—**	**151,414,659**	**151,414,659**

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

A. Basis of presentation

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

The consolidated statement of cash flows for the year ended December 31, 2015 has been restated for the presentation of currency exchange loss (gain) on cash and cash equivalents. The impact of the restatement is to reflect an increase in net cash used in operating activities by $1.9 million together with an equal and opposite effect of currency exchange rate changes when reconciling between the beginning and end of period cash balances. The restatement has no impact on net loss or on net assets.

The accounting policies applied are consistent with those that were applied to the consolidated financial statements for the year ended December 31, 2015.

B. History and organization of the Company

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

Nirog Therapeutics LLC ("Nirog") was formed on September 23, 2009 as a Delaware limited liability company. Nirog was established as a vehicle to fund the research and development of the Company's anticoagulation program and the Company owned 76.8% and 72.6% of Nirog as of December 31, 2016 and 2015, respectively.

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

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

These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business. The Company is financed substantially through equity funding, upon which the company is reliant to fund its operations until positive cash flow is generated from ongoing business operations. A successful public offering was made on May 7, 2015 and as such the Company has secured the financing it requires to continue in operational existence for the foreseeable future. As such, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of no less than 12 months from the date of signing these consolidated financial statements. Thus, the directors continue to adopt the going concern basis of preparation.

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

C. Initial public offering

On May 7, 2015, the Company completed its initial public offering ("IPO") by issuing 32,569,047 shares of Common Stock at a price of $3.07 (202p) per share on the Alternative Investment Market ("AIM") of the London Stock Exchange and raised net cash proceeds of approximately $92.5 million, after deducting underwriting discounts, commissions, and offering expenses. Immediately prior to the IPO, all classes of Preferred Stock and Common Stock were converted to one class of Common Stock. All outstanding warrants and options were amended to be exercisable for shares of Common Stock.

A total of $2.0 million of convertible notes were converted into 635,418 shares of Common Stock upon the completion of the IPO. Pursuant to these convertible note agreements, the Company also issued warrants to the noteholders to acquire a total of 75,655 shares of Common Stock.

In addition, upon the completion of the IPO and pursuant to the Placing agreements, the Company issued warrants to Cenkos Securities plc ("Cenkos"), the Company's nominated adviser and broker, and Mr. Alastair Cade, one of the Company's directors who is also a director of Chaka Investments (UK) Limited. The warrants are exercisable for five years and entitle each of them to acquire 521,105 shares of Common Stock at an exercise price of $4.00 (263p) per share. The fair value of the warrants was calculated at the grant date using a Black-Scholes valuation model, the assumptions for which are set out in Note 15.

D. Description of business

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

E. Summary of significant accounting policies

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

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

c. **Revenue recognition:** The Company has not earned revenue from the sale of its new drug candidates. Revenue will be recognized when persuasive evidence of an agreement exists, delivery of service occurs, the sales price is fixed, or determinable and collectability is reasonably assured.

d. **Research and development expenses:** The Company's research and development expenses include, but are not limited to, wages and related benefits, including stock-based compensation, facilities, supplies, external services, and other expenses that are directly related to its research and development activities. Research and development costs are expensed as they occur. When payments for research and development services are made prior to the services being rendered, those amounts are recorded as prepaid assets on the consolidated balance sheet and are expensed as the services are provided. For the years ended December 31, 2016 and 2015, research and development expenses were $11.5 million and $4.5 million, respectively.

e. **Foreign currency:** The Company records foreign currency transaction gains and losses, realized and unrealized, and foreign exchange gains and losses due to remeasurement of monetary assets and liabilities denominated in foreign currency as currency exchange gains or losses in the consolidated statements of operations and comprehensive loss. The Company recorded a loss of $2.6 million in 2016 as compared to a gain of $1.9 million in 2015.

Notes to consolidated financial statements
(continued)

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

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

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

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

	Estimated useful life
Computer and peripherals	2 years
Lab equipment	5 years
Office equipment	5 years
Furniture and fittings	5 years
Building	20 years
Leasehold improvements	Shorter of lease period or estimated useful life

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

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

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

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

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

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

	Year ended December 31,	
	2016	**2015**
Options to purchase Common Stock	1,990,825	1,517,375
Warrants to purchase Common Stock	2,351,965	2,808,081
Restricted Stock Units	76,357	78,647
Total	**4,419,147**	**4,404,103**

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

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

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

	Year ended December 31,	
(US $'000)	**2016**	**2015**
Research and development	330	116
General and administrative	437	1,249
Total *	**767**	**1,365**

* Net of $40 thousand in 2016 to reverse liabilities accrued in 2015 and $1,100 thousand IPO issuance cost recorded in 2015.

n. **Recently issued accounting standards:** In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers (Topic 606)." The standard's core principle is that a reporting entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB decided to postpone the effective date of the new standard by one year. The standard will be effective for the Company in the first quarter of 2018. Early adoption is permitted in 2017. Entities

will have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. Since the Company has yet to report revenue, the Company does not expect that the adoption of this standard will have an impact on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". The standard will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related disclosures in certain circumstances. The new standard incorporates and expands upon certain principles that are currently in the auditing standards. Specifically, the new standard defines substantial doubt, requires assessments each annual and interim period, provides an assessment period of one year from the issuance date, and requires disclosures both when substantial doubt is alleviated by management's plans and when substantial doubt remains unalleviated. ASU 2014-15 is effective for the fiscal year 2017 and annual periods and interim periods thereafter. The adoption of this guidance does not have an impact on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes", which requires that deferred tax liabilities and assets be classified as non-current in the balance sheet. This standard is effective for the fiscal year 2017 and annual periods and interim periods thereafter. The adoption of this guidance does not have an impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities", which eliminates the requirement for public companies to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. Additionally, the standard requires public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. Furthermore, the standard requires presentation of financial assets and liabilities by measurement category and form of financial asset on the balance sheet or accompanying notes to the financial statements. The standard will be effective for the fiscal year 2018 and annual periods and interim periods thereafter. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. It requires lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. The new standard will be effective for the fiscal year 2019 and annual periods and interim periods thereafter. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In March 2016, the FASB issued ASU N0. 2016-09, "Compensation- Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Account", which offers simplifications of several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for the fiscal year 2017 and annual periods and interim periods thereafter. The adoption of this guidance does not have an impact on the Company's consolidated financial statements.

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

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

Notes to consolidated financial statements
(continued)

F. Notes to financial information

1. Cash, cash equivalents and investments

The amortized cost and fair value of cash equivalents and investments at December 31, 2016 and 2015 were as follows:

	December 31, 2016		
(US $'000)	Amortized cost	Gross unrealized losses	Fair value
Money market fund	12,797	—	12,797
Certificate of deposits	6,069	—	6,069
Municipal securities	4,211	(2)	4,209
Government sponsored agencies	6,720	(3)	6,717
Commercial paper	4,398	—	4,398
Corporate securities	1,000	—	1,000
Total available-for-sale securities	**35,195**	**(5)**	**35,190**
Classified as:			
Cash equivalents *			17,547
Short-term investments			17,643
Long-term investments			—
Total available-for-sale securities			**35,190**

	December 31, 2015		
(US $'000)	Amortized cost	Gross unrealized losses	Fair value
Money market fund	672	—	672
Certificate of deposits	9,720	(5)	9,715
Municipal securities	4,865	(7)	4,858
Government sponsored agencies	4,427	(5)	4,422
Commercial paper	6,174	—	6,174
Corporate securities	14,191	(19)	14,172
Total available-for-sale securities	**40,049**	**(36)**	**40,013**
Classified as:			
Cash equivalents *			6,104
Short-term investments			32,911
Long-term investments			998
Total available-for-sale securities			**40,013**

* Cash and cash equivalents at December 31, 2016 of $29,225 thousand comprises cash of $11,678 thousand and cash equivalents of $17,547 thousand, as compared to cash and cash equivalents of $41,764 thousand at December 31, 2015, which comprises cash of $35,660 thousand and cash equivalents of $6,104 thousand.

Notes to consolidated financial statements
(continued)

The Company invested the funds raised from the IPO in May 2015 with liquidity that is sufficient to meet its operating and investment cash requirements as well as to preserve principal. All available-for-sale securities held as of December 31, 2016 and 2015 had contractual maturities of less than two years and high quality investment grade ratings. Realized gains on available-for-sale securities for the year ended December 31, 2016 were $146 thousand and were recorded as interest income, as compared to the realized gains on available-for-sale securities of $48 thousand for the year ended December 31, 2015.

As of December 31, 2016, the Company considers the declines in market value of its investment portfolio to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company believes that it is more-likely-than-not that investments in an unrealized loss position will be held until maturity or the recovery of the cost basis of the investment. To date, the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.

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

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

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

The Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements are as follows as of December 31, 2016 and 2015:

(US $'000)	December 31, 2016			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	12,797	—	—	12,797
Certificate of deposits	—	6,069	—	6,069
Municipal bonds	—	4,209	—	4,209
Government sponsored agencies	—	6,717	—	6,717
Commercial paper	—	4,398	—	4,398
Corporate debt securities	—	1,000	—	1,000
Total	**12,797**	**22,393**	**—**	**35,190**

(US $'000)	December 31, 2015			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market fund	672	—	—	672
Certificate of deposits	—	9,715	—	9,715
Municipal bonds	—	4,858	—	4,858
Government sponsored agencies	—	4,422	—	4,422
Commercial paper	—	6,174	—	6,174
Corporate debt securities	—	14,172	—	14,172
Total	**672**	**39,341**	**—**	**40,013**

Notes to consolidated financial statements
(continued)

2. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of:

(US $'000)	December 31, 2016	December 31, 2015
Prepaid expenses and other current assets:		
Equipment related deposits	171	—
Operating lease(s) related deposits	56	46
Equipment maintenances and software licenses	54	28
Insurance premium	42	52
Other	47	42
Prepaid expenses and other current assets	**370**	**168**

3. Property and equipment, net

Property and equipment, net consist of:

(US $'000)	December 31, 2016	December 31, 2015
Land and building	20,938	9,169
Lab equipment	1,401	745
Office equipment	4	4
Computer and peripherals	362	—
Furniture and fittings	126	126
Total	**22,831**	**10,044**
Less: Accumulated depreciation	(505)	(205)
Property, plant and equipment, net	**22,326**	**9,839**

Depreciation expense was $0.3 million and $42 thousand for the year ended December 31, 2016 and 2015, respectively.

4. Nirog

The consolidated financial statements presented include financial position and performance of Nirog Therapeutics LLC ("Nirog"), a Delaware limited liability company. Nirog was established in September 2009 as a vehicle to fund the research and development of the Company's anticoagulation program. The Company owned 32.2% of Nirog prior to the IPO in May 2015. Pursuant to share exchange agreements the Company had entered into during March and April 2015 with certain unitholders of Nirog, the Company issued, upon IPO, 5,025,738 shares of Common Stock to Nirog unitholders in exchange for 12,859,188 shares of Nirog units held by such Nirog unitholders. As a result of the transactions, the Company increased its ownership of Nirog to 70.9% of the outstanding equity of Nirog. After the IPO, the Company invested in additional interests in Nirog and owned 76.8% and 72.6% of the outstanding equity of Nirog as of December 31, 2016 and 2015, respectively. No proceeds were raised in 2016 as compared to $20 thousand in 2015.

Notes to consolidated financial statements
(continued)

5. Accrued liabilities

Accrued liabilities consist of:

(US $'000)	December 31, 2016	2015
Professional services—audit	95	124
Professional services—other	243	—
Facility buildout	1,587	106
Legal services	74	144
Vacation accrual	421	334
Various operating accruals	130	129
Interest payable	—	80
Deferred compensation	—	12
Total accrued liabilities	**2,550**	**929**

6. Debts

In December 2008, the Company issued promissory notes to certain individuals. The promissory notes carried an 8% interest rate and do not have a conversion option. The promissory notes were due upon completion of the sale of the Company, an initial public offering, or private equity funding of at least $8.0 million. In March and April 2015, the Company entered into modifications of certain agreements under these promissory notes to adjust repayment terms and extend the repayment date to March 2016. The Company settled $1.3 million of the debt during the year ended December 31, 2015 and the remaining $0.2 million in February 2016.

In November 2014, the Company established a 6% unsecured promissory note with several lenders. The total principal borrowed by the Company during 2014 was $0.5 million under the unsecured convertible note. In January 2015, the company issued additional convertible promissory notes totaling to $1.5 million with a few additional lenders under the same terms. The due date of the unsecured convertible note is five years from the issuance date. As part of the convertible note, the lenders were issued 75,645 Common warrants exercisable at $0.25 per warrant share. These convertible notes were converted into shares of Common Stock concurrently with the IPO in May 2015. Pursuant to conversion of said convertible promissory notes 635,418 shares of Common Stock were issued upon IPO.

7. Income taxes

The Company did not record a federal or state current or deferred income tax provision or benefit for the years ended December 31, 2016 and 2015 due to the losses incurred in the corresponding periods, as well as the Company's continued maintenance of full valuation allowance against its net deferred tax assets. The Company's income tax provision of $nil in said periods represents an effective tax rate of 0%.

At December 31, 2016, the Company had federal and state Net Operating Loss ("NOL") carry forwards of approximately $33.3 million and $34.0 million, respectively, which expire at various dates through 2036 if not utilized. At December 31, 2016 the Company had federal and state research credit carry forwards that totaled $1.3 million and $0.7 million, respectively, which expire at various dates through 2036 if not utilized.

During the year ended December 31, 2016, the only change in the balance of gross uncertain tax benefits was an increase of $0.3 million related to current year and prior year tax positions. At December 31, 2016, the balance of gross uncertain tax benefits was $0.7 million as compared to $0.4 million as of December 31, 2015. All of the unrecognized tax benefits would, if recognized, reduce the Company's annual effective tax rate. The Company currently has a full valuation allowance against its net deferred tax assets which would impact the timing of the effective tax benefit should any of the uncertain tax positions be favorably settled in the future.

Notes to consolidated financial statements
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The components of the Deferred Tax Assets were calculated using the federal statutory income tax rate of 34% and the state statutory income tax rate of 6%. The Company's deferred tax assets differ from deferred income tax assets computed by applying the federal statutory income tax rate of 34% to the loss before income taxes principally due to the effect of (i) stock based compensation expenses of $0.8 million (2015: $1.4 million) for which there is no associated income tax deduction; (ii) losses in Nirog not attributable to the Company; and (iii) the effect of losses incurred by the Company for which the potential deferred tax asset has a full valuation allowance.

The components of the deferred tax assets are as follows:

	December 31,	
(US $'000)	**2016**	**2015**
Deferred tax assets:		
Net operating loss carry forwards	13,346	6,134
R&D credit carry forwards	1,293	780
Depreciation and amortization	117	(1)
Accruals and reserves	170	172
Total deferred tax assets	14,926	7,085
Less valuation allowance	(14,926)	(7,085)
Total	**—**	**—**

Based on available objective evidence, management believes it is likely that the deferred tax assets will not be realized. Accordingly, the Company has provided a full valuation allowance against its net deferred tax assets at December 31, 2016 and 2015.

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

The tax years 2008 to 2016 remain open to regular examination of their income tax returns and other related tax-fillings by the Internal Revenue Service and state tax authorities. There are no prior or current year tax returns under audit by tax authorities, and management is not aware of any impending audits.

8. Net loss per share

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

	2016	**2015**
Weighted average shares—basic	151,339,342	136,092,491

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

	2016	2015
Net loss attributable to Verseon Corporation	$(19,482,000)	$(7,691,000)
Average outstanding shares		
Basic	151,339,342	136,092,491
Diluted *	151,339,342	136,092,491
Net loss per share		
Basic	$(0.13)	$(0.06)
Diluted *	$(0.13)	$(0.06)

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

9. Segment reporting

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

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

10. Concentration of credit risk

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

All cash, cash equivalents, and marketable securities investments are held in the United States and United Kingdom as of December 31, 2016 and 2015. All marketable securities investments as of December 31, 2016 had high quality investment grade ratings. At times, cash balances may exceed federally insured amounts and potentially subject the Company to a concentration of credit risk. To limit the credit risk, the Company invests its excess cash primarily in high quality securities such as money market funds. Management believes that no significant concentration of credit risk exists with respect to these cash and marketable securities investment balances because of its assessment of the credit worthiness and financial viability of the respective financial institutions.

11. Related-party transactions

The Company had a convertible note agreement with Godrej Industries, a stockholder in the Company, in the principal amount of $1.0 million. The loan was converted into Class B Preferred Stock in 2014, which was then converted into shares of Common Stock at IPO in May 2015. The preferred class B warrants associated with the convertible notes were all exercised in April 2015 to acquire 171,174 shares of Common Stock. As such, there was no outstanding warrant at December 31, 2016 and 2015.

One of Nirog Therapeutics Board members, Mr. Sabeer Bhatia, had provided funds to the Company in the form of convertible notes, through a Trust. The convertible notes were converted into Class B Preferred Stock in 2014, which was then converted into shares of Common Stock at IPO in May 2015. A majority portion of the preferred class B and C warrants associated with the convertible notes were exercised in June 2015 to acquire 252,443 shares of Common Stock. As a result, warrants to acquire 42,104 shares of Common Stock were outstanding at December 31, 2016 and 2015.

Notes to consolidated financial statements
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The three founders and officers of the Company, Adityo Prakash, Eniko Fodor, and David Kita, had provided funds to the Company in the form of convertible notes that were converted into shares of Class B Preferred Stock in 2014, which were then converted into shares of Common Stock at IPO in May 2015. In January 2015 the founders exercised 4,921 shares of the warrants associated with said transactions. No warrants were owned or exercised by the founders in 2016. However, Ms. Fodor purchased 6,000 shares of Common Stock in September 2016 from the market for $13 thousand.

In January 2015, two of the founders exercised additional warrants to acquire a total of 1,324,921 shares of Common Stock for $0.1 million, which were also financed through secured promissory notes issued by the Company and recorded in the "Loan receivable from stockholders" in the Stockholders' Equity section of the Balance Sheet. "Loan receivable from stockholders" refers to employees and consultants of the Company who purchased their shares through the issuance of promissory notes by the Company. Total loan receivable from stockholders at December 31, 2016 and 2015 were $14.8 million and $14.5 million, respectively.

In January 2015, the Company issued $0.3 million of convertible promissory notes to Mr. Alastair Cade, one of the Company's directors, and $0.2 million of convertible promissory notes to Chaka Investments (UK) Limited ("Chaka"), where Mr. Cade is the director. In connection with the IPO, the notes were converted into 162,845 shares of Common Stock and warrants to acquire 16,283 shares of Common Stock. In addition, Mr. Cade received additional warrants to acquire shares of Common Stock as further described in Note C Initial Public Offering herein. The Company also engaged Chaka to provide consulting service for an aggregated amount of $0.2 million and $0.1 million in 2016 and 2015, respectively.

In April 2015, immediately prior to the IPO, a Board of Directors comprising of two executive and three non-executive members was established. The remuneration of the Directors are stated at the Compensation Committee Report herein.

The following table provides the number of warrants outstanding associated with each of the related parties:

	2016	2015
Sabeer Bhatia Trust	42,104	42,104
Alastair Cade *	537,388	537,388

* Including warrants issued to Chaka.

12. Commitments and contingencies

Operating leases

Rental expense for operating leases amounted to $0.8 million and $0.3 million for the years ended December 31, 2016 and 2015, respectively. The operating lease for the biology laboratory is cancellable with a three-month advance notice period, while the chemistry laboratory is cancellable with a one-month advance notice period. The headquarters lease is cancellable at the end of the renewal period annually and runs from August 1 through July 31.

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

(US $'000)	2016	2015
Lease for headquarters	83	70
Lease for laboratories	52	49
Total obligation	**135**	**119**

Legal proceedings

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

13. Stockholder's equity

Common Stock and Preferred Stock

As of January 1, 2015, the Common Stock consisted of two classes: Class Y Common with 15,000,000 authorized shares and Class Z Common with 141,000,000 authorized shares. The conversion right of Class Y Common was adjusted such that each of Class Y shares convert to two shares of Class Z Common or its equivalent. Both Class Y Common and Class Z Common had a par value of $0.001 per share.

As of January 1, 2015, Preferred Stock was consisted of three classes: Class A, B and C Preferred. The authorized number of Class A Preferred was 10,010,000, Class B Preferred was 2,800,000 and Class C was 10,000,000 authorized shares. All classes of Preferred have a par value of $0.001 per share. The conversion rights of all Preferred classes were adjusted such that shares of these classes convert to two shares of Class Z Common or its equivalent.

As of January 1, 2015, the Company had 15,000,000 of Class Y Common outstanding, 58,944,641 of Class Z Common outstanding, 6,830,102 of Class A Preferred outstanding, 2,188,773 of Class B Preferred outstanding and no shares of Class C Preferred outstanding.

Class Y Common Stock value: The Company founders contributed intellectual property in exchange for Class Y Common Stock. For purposes of establishing capital accounts for tax filings, such contributions were valued at $750 thousand. These assets have been recorded in the accompanying consolidated financial information at their historical basis of zero for financial reporting purposes.

In April 2015, the Company's stockholders approved changes to the Company's share capitalization. The following is a list of the key changes to the Company's authorized share capital:

1. All outstanding shares of Classes A, B, Y and Z were converted into 111,509,706 shares of one class of the Company's Common Stock and all outstanding warrants and options were amended to be exercisable for 2,902,401 shares of the Company's Common Stock.

2. The Company's share capitalization has been changed such that the Company is authorized to issue one class of stock to be designated Common Stock and one class of stock to be designated Preferred Stock. The total number of shares of Common Stock that the Company is authorized to issue is 300,000,000 shares at a par value of $0.001 per share, and the total number of shares of Preferred Stock that is authorized to issue is 30,000,000 shares at a par value of $0.001 per share.

As of December 31, 2016 and 2015, the Company had 151,414,659 shares and 150,878,815 shares of Common Stock outstanding, respectively, and no shares of Preferred Stock outstanding.

2015 Equity incentive plan

In April 2015, the Company adopted the Verseon Corporation 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares, cash-based awards and other stock-based awards to non-employee directors, officers, employees, advisors, consultants, and independent contractors. An aggregate of 15,000,000 shares of Common Stock was initially available for grant pursuant to awards under the 2015 Plan. The 2015 Plan contains a provision that provides annual increases in the number of Common Stock available for delivery pursuant to awards on each January 1st beginning January 1, 2016, and ending on (and including) January 1, 2025. Such annual increase equals to 2% of the total shares of Common Stock outstanding on December 31st of the preceding calendar year; provided that the Board decides, prior to the first day of any calendar year, that there will be no increase or a lesser increase for such calendar year. In September 2015, the plan was amended to limit the annual increase of incentive stock option shares available for grant to a maximum of 3,000,000 shares. A total of 16,420,666 shares and 13,927,334 shares were available for grant under the 2015 Plan as of December 31, 2016 and 2015, respectively.

Loan receivable from stockholders

The Company issued promissory notes to employees and consultants to purchase shares of the Company's stock and recorded them as "Loan receivable from stockholders." In January and February 2015, the Company accepted promissory notes in an aggregate principal amount of $0.1 million from certain employees, officers and directors in exchange for a loan, each of which was full recourse and secured by a pledge of shares of Class Z Common Stock purchased by the promissory note issuer with the proceeds of the loan under a pledge and security agreement. Each promissory note was issued in the same form, the principal sum of which is payable by the issuer at a rate of 2.1% per annum, compounded annually, on the unpaid balance of the principal sum. Principal and interest are due on the earlier of the (i) nine year anniversary of the date of issuance and (ii) the sale, transfer or assignment of the pledged collateral. The residual 44,500 shares of Class Z Common Stock related to the exercise of previously granted options were issued for an aggregate cash consideration of $7 thousand. Total loan receivable from stockholders at December 31, 2016 and 2015 were $14.8 million and $14.5 million, respectively.

Stock subscription money

In 2006, VIPL issued 1,578,947 shares to investors ("VIPL Investors") who purchased non-cumulative convertible Preference Shares in the subsidiary. VIPL Investors had an Exchange agreement with the Company to swap VIPL shares for Company shares; the Exchange agreement has since expired. VIPL has been dormant since 2009 and the cash paid by VIPL Investors is recorded as a stock subscription in the accompanying consolidated financial statements. Subsequently, in April 2015, the Company entered into an agreement with the VIPL investors in which the Company issued 3,157,894 shares of Class Z Common Stock to the investor in exchange for the termination of certain past obligations of the Company and the waiver of certain rights held by such investor. All shares of the Class Z Common Stock were converted into shares of Common Stock in April 2015.

14. Restricted Stock Units (RSUs)

In 2015, the Company began issuing RSUs to certain employees and consultants under the 2015 Plan. The RSUs are valued at the closing price of the Company's Common Stock on the date of grant. The restricted stock unit activity for the year ended December 31, 2016 and 2015 is summarized as follows:

	Shares	Weighted average grant date fair value per share ($)
Awarded and unvested at December 31, 2014	**—**	**—**
Granted in 2015	105,291	3.43
Vested in 2015	(26,644)	3.47
Awarded and unvested at December 31, 2015	**78,647**	**3.41**
Granted in 2016	57,388	2.27
Vested in 2016	(59,678)	3.00
Awarded and unvested at December 31, 2016	**76,357**	**2.87**

A total of $0.2 million was recorded as stock-based compensation expenses in each of 2016 and 2015 for RSU granted. As of December 31, 2016, there was $0.2 million of unrecognized compensation expense associated with unvested RSUs, which is expected to be recognized over a weighted-average period of 1.7 years as compared to $0.2 million of unrecognized compensation expense associated with unvested RSUs with a weighted-average period of 3.5 years in 2015.

Notes to consolidated financial statements
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15. Warrants

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

The Company issued Common Warrants to purchase a total of 1,908,969 shares of Common Stock for exercise price totaling $6.8 million in 2015. These Common Warrants have a weighted average exercise price of $3.59 per share and the majority of them expire in 2020. The weighted average fair value of each share under these Common Warrants was $1.30 at the date of the grants in 2015. There were no warrants granted during the year ended December 31, 2016.

A total of $0.1 million was recorded as stock-based compensation expenses in 2016 for warrants, as compared to $0.9 million in 2015. For details of the variables used by the Company in the Black-Scholes warrant pricing model for warrants granted in the years ended December 31, 2016 and 2015, see the following table:

	Year ended December 31,	
	2016	2015
Expected volatility	*	50%–75%
Expected dividend yields	*	0%
Expected risk-free interest rate	*	0.9%–1.7%
Expected life of warrants	*	3–5 years

* No warrants were granted in 2016.

A total of 21,052 Preferred A Warrants was outstanding and exercisable at December 31, 2016 at a weighted-average exercise price of $0.95 per share and with weighted-average remaining life of 5.2 years. There was no Preferred A Warrant activity in 2015 and 2016. The following is a summary of the status of the Company's outstanding stock warrants as of December 31, 2016 and 2015 and changes that occurred during each time period:

	Number of Common Warrants	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2014	**—**	**—**	**—**
Granted in 2015	1,908,969	3.59	4.9
Exercised in 2015	(3,256)	0.25	—
Cancelled in 2015	(15,000)	3.36	—
Outstanding at December 31, 2015	**1,890,713**	**$3.59**	**4.3**
Granted in 2016	—	—	—
Exercised in 2016	—	—	—
Cancelled in 2016	—	—	—
Outstanding at December 31, 2016	**1,890,713**	**$3.59**	**3.3**
Exercisable at December 31, 2016	**1,703,213**	**$3.62**	**3.3**

Notes to consolidated financial statements
(continued)

	Number of Common Z Warrants	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2014	**2,135,951**	**0.10**	**3.8**
Granted in 2015	—	—	—
Exercised in 2015	(1,401,708)	0.08	—
Cancelled in 2015	(1,583)	0.04	—
Outstanding at December 31, 2015	**732,660**	**0.14**	**2.3**
Granted in 2016	—	—	—
Exercised in 2016	(456,116)	$0.09	—
Cancelled in 2016	—	—	—
Outstanding and exercisable at December 31, 2016	**276,544**	**0.22**	**2.9**

	Number of Preferred B Warrants	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2014	**601,540**	**2.54**	**2.6**
Granted in 2015	—	—	—
Exercised in 2015	(383,671)	$2.54	—
Cancelled in 2015	(146,567)	$2.54	—
Outstanding at December 31, 2015	**71,302**	**$2.54**	**2.9**
Granted in 2016	—	—	—
Exercised in 2016	—	—	—
Cancelled in 2016	—	—	—
Outstanding and exercisable at December 31, 2016	**71,302**	**2.54**	**1.9**

Nirog

Nirog did not issue any warrants during the years ended December 31, 2015 and 2016. In 2015, 750 Common Z Warrants and 45,044 Preferred A Warrants were exercised with a weighted-average exercise price of $0.07 and $0.33, respectively. There were no Common Z Warrants or Preferred A Warrants outstanding as of December 31, 2016 and 2015.

A total of 57,727 Preferred B2 Warrants was outstanding and exercisable at December 31, 2016 at a weighted-average exercise price of $0.80 per share and with weighted-average remaining life of 1.1 years. There was no Preferred B2 Warrant activity in 2015 and 2016. A total of 102,128 Preferred C1 Warrants was outstanding and exercisable at December 31, 2016 at a weighted-average exercise price of $0.90 per share and with weighted-average remaining life of 2.1 years. There was no Preferred C1 Warrant activity in 2015 and 2016. A total of 5,250 Preferred C2 Warrants was outstanding and exercisable at December 31, 2016 at a weighted-average exercise price of $1.00 per share and with weighted-average remaining life of 2.4 years. There was no Preferred C2 Warrant activity in 2015 and 2016.

Notes to consolidated financial statements
(continued)

16. Stock options and stock grants

Verseon

The activity in the Company's option grants during the years 2015 and 2016, are set out in the table below:

	Number of options	Weighted-average exercise price ($)	Weighted-average remaining life (Years)
Outstanding at December 31, 2014	**948,728**	**0.09**	**5.8**
Granted in 2015	1,516,375	3.44	10.0
Exercised in 2015	(309,380)	0.15	—
Cancelled in 2015	(638,348)	2.96	—
Outstanding at December 31, 2015	**1,517,375**	**2.29**	**9.4**
Granted in 2016	658,000	2.34	10.0
Exercised in 2016	(20,050)	0.26	—
Cancelled in 2016	(164,500)	2.44	—
Outstanding at December 31, 2016	**1,990,825**	**2.31**	**8.7**
Exercisable at December 31, 2016	**688,471**	**1.96**	**8.3**

In 2016 and 2015, stock based compensation expense for stock options was $0.5 million and $0.3 million, respectively. The weighted average grant date fair value of the Common Stock options granted in 2016 was $1.13 per share, as compared to $1.68 per share in 2015.

For details of the variables used by the Company in the Black-Scholes option pricing model for the years December 31, 2016 and 2015, see the following table:

	Year ended December 31,	
	2016	2015
Expected volatility	50%	50%–75%
Expected dividend yields	0%	0%
Expected risk-free interest rate	1.2%–1.7%	1.4%–1.9%
Expected life of options	5–6 years	5–6 years

Nirog

The Nirog Unit Option Plan provides for both incentive and non-qualified unit options. Unit option grants generally vest over a two-year period from the unit option grant date. In 2015, all 1,925,000 options outstanding were exercised with a weighted-average exercise price of $0.10. No options were issued in 2016. As of December 31, 2016, there were 130,667 unit options available for grant.

Company information

Directors

Thomas A. Hecht, PhD	(Non-Executive Chairman)
Alastair Cade	(Non-Executive Director)
Grover Wickersham	(Non-Executive Director)
Adityo Prakash	(Chief Executive Officer)
Eniko Fodor	(Chief Operating Officer and Chief Financial Officer)

Headquarters

48820-100B Kato Road
Fremont, CA 94538 USA
Tel: +1 (510) 225 9000
Fax: +1 (510) 225 9001

Auditors

Deloitte LLP
Abbots House
Abbey St
Reading RG1 3BD, UK

NOMAD and joint broker

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS, UK

Joint brokers

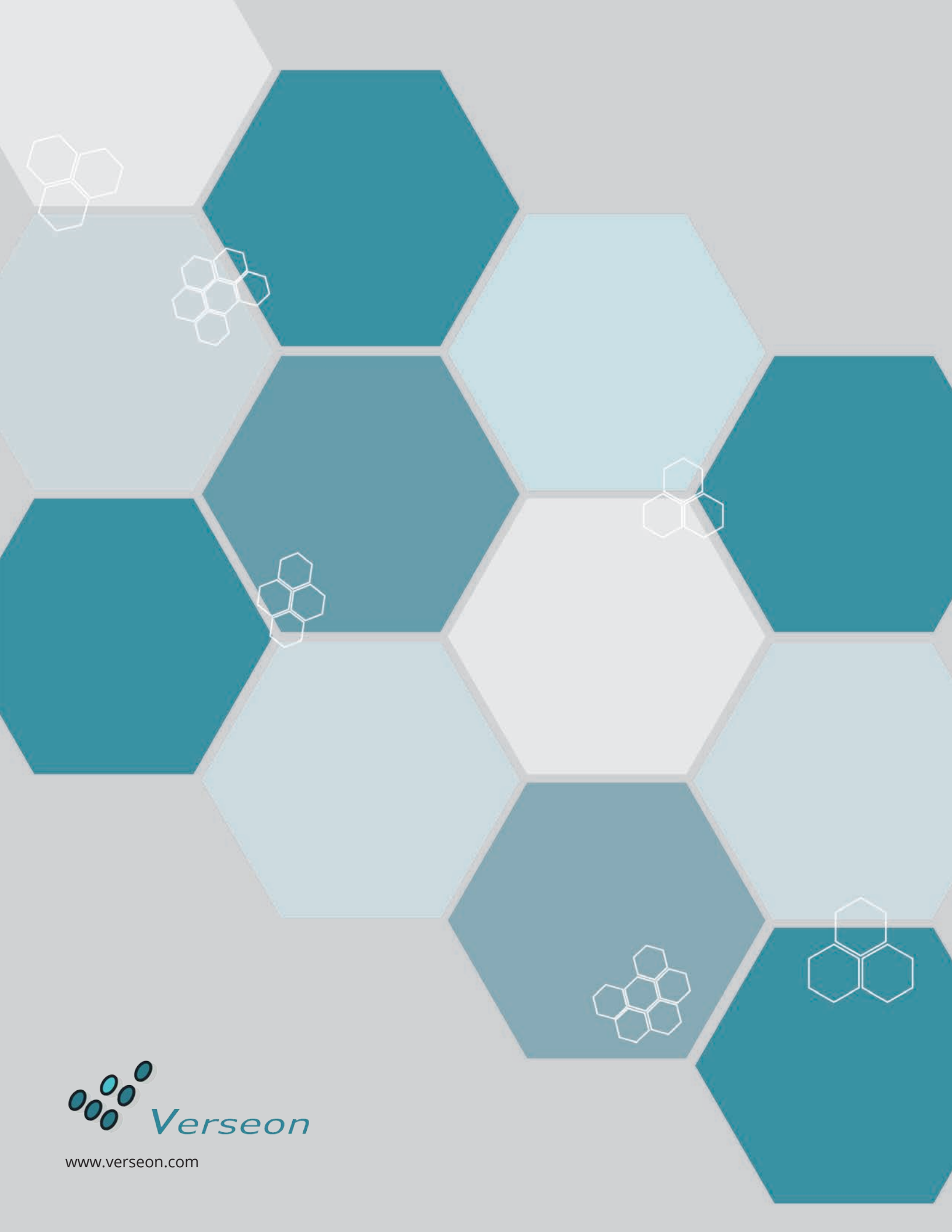
Cantor Fitzgerald Europe
One Churchill Place
London E14 5RB, UK

Mirabaud Securities LLP
33, Grosvenor Place
London SW1X 7HY, UK

Public relations advisors

Buchanan Communications Ltd
107 Cheapside
London EC2V 6DN, UK

Vane Percy & Roberts
Robert Denholm House
Bletchingley Road
Nutfield RH1 4HW, UK



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