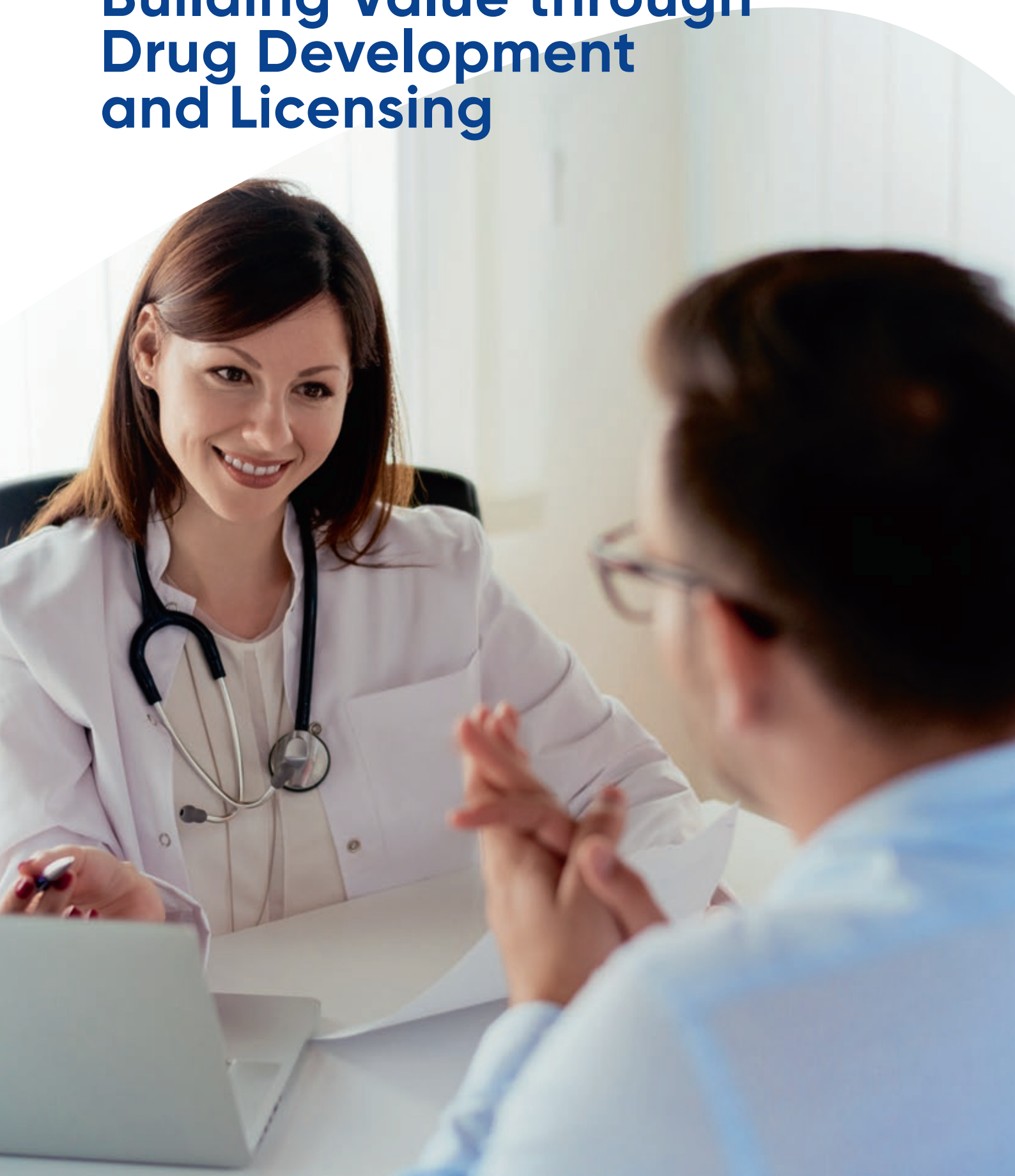
Sareum

Building Value through Drug Development and Licensing



Validating our business model

Sareum's small molecule drug discovery expertise generates value and revenues by developing drug candidates, focused on cancer and autoimmune diseases, and licensing them to pharmaceutical and biotechnology companies.

Read about progress with SRA737 on page 5

Highlights

Operational highlights

- Lead cancer drug candidate SRA737 (formerly CCT245737), a novel Chk1 inhibitor, licensed for clinical development and commercialisation to NASDAQ-listed company Sierra Oncology, Inc. by Sareum's co-investment partner, CRT Pioneer Fund (September 2016).
  - Sareum is eligible to receive 27.5% of up to US$328.5 million in upfront, development and commercialisation milestone payments as well as royalties on sales.
  - An upfront payment of US$7 million and a first milestone payment of US$2 million have already been received from Sierra Oncology (September 2016 and January 2017 respectively).
- Good progress reported by Sierra Oncology in the two ongoing clinical studies with SRA737 as both a monotherapy and in combination with chemotherapy in a range of cancers (June 2017).
- Patents protecting SRA737 were granted in the USA and Europe (May 2017), extending the protection period to 2033 in the USA.
- Successful outcome from feasibility study with TYK2 inhibitors in T-Cell Acute Lymphoblastic Leukaemia (T-ALL). In disease models, Sareum's compounds demonstrated good oral bioavailability, were well tolerated and showed tumour reduction of up to 80% (October 2016). These results support the further advancement of the programme.
- Further patent grants for Aurora+FLT3 kinase programme in Japan, Singapore, China, and Hong Kong, completing intellectual property protection for the candidate in all major territories.

Financial highlights

- Maiden profit (after taxation) on ordinary activities of £400k (2016: loss of £1.05 million).
- Net assets at period end were £2.34 million (2016: £1.86 million), of which £2.31 million comprised cash at bank (2016: £1.25 million).
- £1.50 million received from Sierra Oncology as the Company's share of the US$7 million upfront payment from the out-licensing agreement for SRA737 (September 2016). Milestone payment of £450k received (share of US$2 million payment) following the successful transfer of the two ongoing Phase 1 clinical trials of SRA737.
- Received £229k in unspent funds previously invested in clinical development of Chk1 upon the out-licensing of SRA737.

visit us online:
www.sareum.com

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

At a Glance

We are very pleased with the progress made across our pipeline. The licensing of SRA737 to Sierra Oncology places the development and marketing of this exciting oncology candidate in the hands of a highly experienced team. The agreement has the potential to provide substantial funds, enabling us to advance and broaden our own pipeline programmes, and overall provides important validation of our business model and drug R&D expertise.

See our research update on page 6

What we do

Sareum is a specialist drug discovery and development company delivering targeted small molecule therapeutics, focusing on cancer and autoimmune disease, and generating value through licensing them to international pharmaceutical and biotechnology companies at the preclinical or early clinical trials stage.

Our year

2016

August

Aurora+FLT3 patent grant notifications received for China and Hong Kong.

September

SRA737 (formerly CCT245737), a novel Chk1 inhibitor, licensed to Sierra Oncology (formerly ProNAi Therapeutics) for up to US$328.5 million plus royalties by co-investment partner, the CRT Pioneer Fund. Sareum eligible to receive 27.5% of economics and received £1.5 million share of US$7 million upfront on signing.

October

Aurora+FLT3 patent grant notifications received for Japan and Singapore, giving Sareum approved patent protection in all the major territories.

Successful conclusion to the BioMedical Catalyst funded feasibility study for TYK2, with lead compounds showing tumour regression in a disease model of T-ALL.

November

Updated results from TYK2 cancer research programme presented at AACR-NCI-EORTC.

2017

January

Received £450k share of US$2 million success milestone payment as part of SRA737 licence agreement on transfer of two ongoing Phase 1 clinical trials to Sierra Oncology.

May

Sierra Oncology announced that patents protecting SRA737 were granted in the USA and Europe, extending its protection period to 2033 in the USA

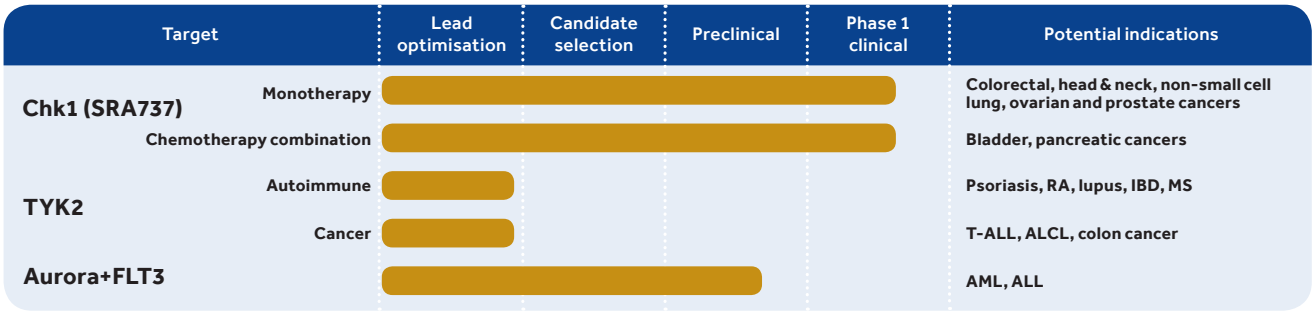
June

At the American Society of Clinical Oncology (ASCO), Sierra Oncology reported initial progress of the two ongoing Phase 1 trials of SRA737, including the start of the cohort expansion phase of the monotherapy trial. In addition, Sierra presented two posters describing the innovative clinical designs of these trials.

Drug development pipeline

Sareum's pipeline is built on the drug discovery expertise of its founders, particularly in the field of cancer. The Company operates a collaborative and outsourced business model. All our laboratory-based research is carried out in the facilities of collaborators or third-party providers. This enables us to access drug discovery expertise throughout the world with a very flexible cost base.

Sareum focuses on developing new therapies against biochemical targets where existing preclinical or early clinical data are available. This data can give a strong indication that a therapy will disrupt a targeted biochemical process and improve patient outcomes without significant side effects. Sareum's approach is lower risk than developing therapies against entirely novel targets.



RA: Rheumatoid Arthritis
IBD: Inflammatory Bowel Disease
MS: Multiple Sclerosis
T-ALL: T-cell Acute Lymphoblastic Leukaemia
ALCL: Anaplastic Large Cell Lymphoma
AML: Acute Myeloid Leukaemia
ALL: Acute Lymphoblastic Leukaemia

Chk1 kinase – targeting genetically defined solid cancers

SRA737 (formerly CCT245737) is a potent, highly selective, orally bioavailable small molecule inhibitor of Chk1, a key regulator of important cell cycle checkpoints and central mediator of the DNA Damage Response (DDR) network. SRA737 was licensed to Sierra Oncology in September 2016 and is in two innovative Phase 1 clinical trials in patients with advanced cancer and tumours with genetic mutations that predict sensitivity to Chk1 inhibition.

Tumour cells can have many genetic mutations and several of these may result in a strong reliance on Chk1 function for tumour survival. By blocking Chk1 function in these cases, the tumour cells die; this exemplifies the concept of "synthetic lethality."

The clinical studies aim to take advantage of this fundamental role of Chk1 in cancer and will enhance patient selection in order to maximise responses of SRA737 in:

- a monotherapy study in genetically defined patients with five solid tumour types.
- a combination study with low-dose chemotherapy (gemcitabine) in genetically defined patients with two solid tumour types where gemcitabine is a standard care.

In addition, Sierra Oncology is evaluating SRA737 with preclinical studies in combination with targeted cancer therapeutics where there is a strong rationale for synergy with Chk1 inhibition. These include immuno-oncology approaches (anti-PD-1 and PD-L1) and other DDR inhibitors (e.g. PARP inhibitors).

Read more on page 5

TYK2 kinase – targeting autoimmune diseases and cancer

TYK2 is a member of the Janus kinase (JAK) family with roles in pro-inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers. Members of the JAK family are the targets of several marketed and clinical-stage drugs, although there are currently no marketed products specifically targeting TYK2.

Sareum has an ongoing co-development agreement with SRI International to develop TYK2 inhibitors in autoimmune diseases and retains commercialisation rights for these and other TYK2 inhibitors for oncology and immuno-oncology applications.

Autoimmune and inflammatory disorders

Sareum has shown with several TYK2 inhibitors promising and potentially superior therapeutic profiles in disease models of psoriasis, RA and ulcerative colitis. Advanced lead molecules have also shown promising initial efficacy in lupus models. Candidate selections are expected in H1 2018.

Cancers

Several of Sareum's TYK2 inhibitors have demonstrated good efficacy and safety in disease models of T-ALL, both as a single agent and in combination with chemotherapy. They also demonstrate good oral bioavailability, good biodistribution and tumour reduction of up to 80%.

The Company is investigating its TYK2 inhibitors in several solid tumours and blood cancers at leading academic centres worldwide. Sareum is also investigating the potential of its TYK2 inhibitors to overcome resistance to immune checkpoint inhibitors, and is evaluating combination opportunities.

Candidate selection for further development in oncology is targeted for H1 2018.

Read more on page 7

Aurora+FLT3 kinases - targeting AML and other blood cancers

Sareum has identified candidate molecules with potential to be single-agent therapies for AML and other blood cancers. A lead candidate is in preclinical development funded by Sareum's Chinese partner, Hebei Medical University Biomedical Engineering Center, and these studies suggest good tolerability at the predicted therapeutic dose. Preclinical studies are expected to complete in H2 2018.

Read more on page 7

Chairman's Statement

Stephen Parker DPhil
Non-executive Chairman

"Sareum has gained an experienced, highly committed and well-funded development partner for SRA737 in Sierra Oncology."

Sareum made important progress during the year ended 30 June 2017 across its key development programmes. The highlight of the year was the signing of a licence agreement for the Chk1 programme with Sierra Oncology, Inc (NASDAQ: SRRA). This agreement has brought a highly committed and well-funded partner, with proven experience in oncology drug development, to realise the value of this exciting programme. Already, the impact of Sierra Oncology's commitment is being seen with the implementation of highly innovative clinical trial designs. Additionally, clinical opportunities to explore the potential of SRA737 with other new classes of targeted cancer therapy are expected in 2018.

The agreement with Sierra Oncology represents a significant validation of Sareum's business model, which is based on its expertise in small molecule drug design and its strategy to develop programmes to late preclinical or early clinical stages. Sareum aims to take advantage of the substantial values associated with out-licensing programmes at these stages.

The transfer of development costs to Sierra Oncology, alongside income from the Chk1 agreement, is enabling Sareum to allocate more resources to its other programmes. In particular, the TYK2 programme has made encouraging progress during the period and candidate selection studies for both autoimmune and cancer indications are expected to commence in the first half of 2018, while the Aurora+FLT3 programme is advancing through preclinical development despite some delays.

Financial review

From a financial perspective, continued efficient capital use and the receipt of licensing income has resulted in the Company achieving a maiden profit of £400k on ordinary activities (after taxation) for the year ended 30 June 2017 (2016: loss of £1.05 million).

The Company ended the year with net assets of £2.34 million (2016: £1.86 million), of which £2.31 million comprised cash at bank (2016: £1.25 million). The Company received £1.50 million from Sierra Oncology as its share of the US$7 million upfront payment from the out-licensing agreement for SRA737 and a milestone payment of £450k received (share of US$2 million payment) following the successful transfer of the two ongoing Phase 1 clinical trials of SRA737.

Sareum also received £229k in unspent funds previously invested in the co-investment partnership with the CRT Pioneer Fund for the clinical development of the Chk1 programme during the second half of the period.

Outlook

Overall, the Directors are delighted with the progress made across the Company's programmes during the period. Sareum's business model and its expertise in the design and early development of novel drug candidates that offer attractive commercialisation opportunities has been strongly validated by the licence agreement with Sierra Oncology.

From a financial perspective, this progress has culminated in a maiden profit for the Company.

More importantly, however, Sareum has gained an experienced, highly committed and well-funded development partner for SRA737 in Sierra Oncology. The next update from the innovative clinical development programme with SRA737 that Sierra Oncology is driving is expected in February 2018.

The income received to date and the future milestone payments possible (pending their achievement) from this programme are providing Sareum with increased resources to accelerate its internal activities. This includes the selection of clinical candidates in its TYK2 programmes in both autoimmune diseases and cancer indications, expected in 2018, and further preclinical progress anticipated in the Aurora+FLT3 programme.

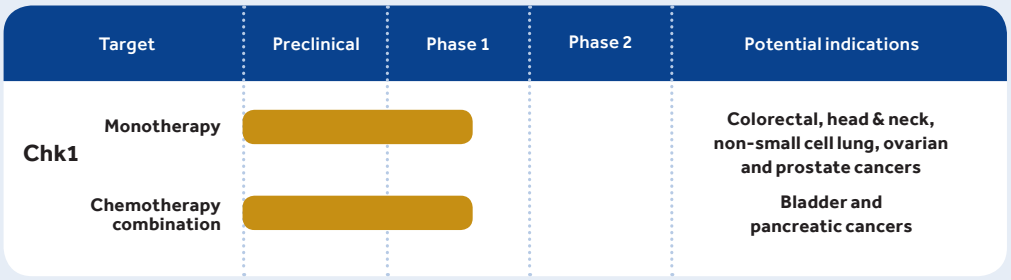
The Company continues to engage with potential partners with a view to securing commercial licences for its products and programmes, while exploring new research programmes from its in-house drug discovery platform, as well as external early stage opportunities that can be potentially in-licensed and progressed into the clinic.

Finally, I would like to thank our shareholders for their continued support and look forward to providing further updates on progress in 2018.

Dr Stephen Parker
Chairman
18 October 2017

Important clinical progress with SRA737, a novel Chk1 kinase inhibitor

SRA737 (formerly CCT245737) is a potent, highly selective, orally bioavailable small molecule inhibitor of Chk1, a key regulator of important cell cycle checkpoints and central mediator of the DNA Damage Response (DDR) network.



Sierra Oncology is evaluating SRA737 in two innovative Phase 1 clinical trials in patients with advanced cancer and tumours identified to have genetic aberrations (mutations) that are thought to confer sensitivity to Chk1 inhibition. Sierra Oncology amended protocols for both trials to take advantage of this fundamental role of Chk1 in cancer, with the objective of enhancing patient selection and maximising potential responses.

The first trial is intended to evaluate SRA737 as a monotherapy in patients whose cancer has the defined genetic profile described above. In June 2017, Sierra Oncology reported that the dose escalation phase of the monotherapy trial had advanced successfully and that the cohort expansion phase, now running at eight UK hospitals, is enrolling patients with five cancer types that are predicted to be highly sensitive to Chk1 inhibition: colorectal, head and neck, non-small-cell lung, ovarian and prostate.

The trial aims to identify a dose for Phase 2 studies along with preliminary efficacy to determine potential patient selection strategies for further clinical development.

The combination study is exploring the potentiating effects of low-dose gemcitabine (a chemotherapy that causes replication stress and DNA damage) in combination with SRA737, also in patients with genetically profiled cancers.

£1.95m
received from upfront and first milestone payments

The study aims to establish the safety profile and identify a dose for further development of SRA737 in combination with low-dose gemcitabine. Once determined, the study will evaluate the preliminary efficacy of the SRA737/gemcitabine combination in genetically defined subjects with bladder or pancreatic cancer.

Sierra Oncology intends to provide an update on the SRA737 programme in late February 2018 and expects to present data at a medical conference in H2 2018.

In addition, Sierra Oncology is evaluating SRA737, with potential clinical opportunities in 2018, in combination with targeted cancer therapeutics where there is a strong biological rationale for synergy with Chk1 inhibition. These include anti-PD-1 and PD-L1 therapies and other DDR inhibitors such as PARP inhibitors.

US$319.5m
total remaining value potential in SRA737 development, not including royalties

SRA737 was discovered as the result of a research collaboration between Sareum, the Institute of Cancer Research and Cancer Research Technology (CRT). Preclinical and initial clinical development was carried out in a co-investment collaboration between Sareum and the CRT Pioneer Fund. The programme was licensed for further clinical development and commercialisation to Nasdaq-listed Sierra Oncology in September 2016 in a deal worth a potential US$328.5 million plus royalties, of which Sareum is eligible to receive 27.5% of the economics.

CEO's Research Update

"Sierra Oncology is advancing next-generation DDR therapeutics for the treatment of patients with cancer, and SRA737 is its lead candidate."

Tim Mitchell PhD
Founder and CEO

We are very pleased with the progress made across our pipeline during the period. The licensing of SRA737 is an important milestone for several reasons: it places the clinical development and future marketing of this exciting oncology candidate in the hands of a highly experienced and well-funded team; the agreement has the potential to provide substantial funds to Sareum, enabling us to advance and broaden our own pipeline programmes; and overall it provides important validation of our business model and expertise for the design and early development of novel drug candidates that offer attractive licensing opportunities for potential partners.

SRA737 – Checkpoint kinase 1 (Chk1)

Targeting solid tumours, licensed to Sierra Oncology
SRA737 (formerly CCT245737) is a potent, highly selective, orally bioavailable small molecule inhibitor of Chk1, a key regulator of important cell cycle checkpoints and central mediator of the DNA Damage Response (DDR) network. SRA737 was discovered as the result of a research collaboration between Sareum, the ICR, and CRT. Preclinical and initial clinical development was carried out in a co-investment collaboration between Sareum and the CRT Pioneer Fund. The programme was licensed for further clinical development and commercialisation to Sierra Oncology in September 2016.

Sierra Oncology is advancing next-generation DDR therapeutics for the treatment of patients with cancer, and SRA737 is its lead candidate. This Company has a strong management team with a proven track record in oncology drug development and is well financed with US$116 million cash as at the end of June 2017.

Under the terms of the co-investment agreement with the CRT Pioneer Fund, Sareum is eligible to receive 27.5% of up to US$328.5 million in upfront, development and commercialisation milestone payments, as well as royalties on sales. An upfront payment of US$7 million and a first milestone payment of US$2 million have already been paid by Sierra Oncology (September 2016 and January 2017 respectively), with Sareum receiving a total of nearly £2 million as its share of this licence income.

By blocking Chk1 function in these cases, the tumour cells die; this is an example of the concept known as "synthetic lethality". Sierra Oncology submitted amended protocols for both trials, approved in May 2017, that aim to take advantage of this fundamental role of Chk1 in cancer, with the objective of enhancing patient selection and maximising potential responses. These innovative trial designs were also presented at the ASCO annual meeting in June 2017.

SRA737 is being evaluated by Sierra Oncology in two innovative Phase 1 clinical trials in patients with advanced cancer and tumours identified to have genetic aberrations (mutations) that are thought to confer sensitivity to Chk1 inhibition. Tumour cells can have many genetic mutations and several of these may result in a strong reliance on Chk1 function for survival of the tumour.

The first trial is intended to evaluate the potential of SRA737 as a monotherapy in patients whose cancer has the defined genetic profile described above. In June 2017, Sierra Oncology reported that the dose escalation phase of the monotherapy trial had advanced successfully to beyond 600mg/day dosing (c. 4x the estimated minimum efficacious dose of 160mg/day) with a well-tolerated safety profile. The cohort expansion phase of this trial, now running at eight UK hospitals, is enrolling patients with five cancer types that are predicted to be highly sensitive to Chk1 inhibition: colorectal, head and neck, non-small-cell lung, ovarian and prostate. The trial will assess the maximum tolerated dose (MTD) of SRA737 and recommend a dose for further (Phase 2) clinical studies. To determine potential patient selection strategies for further clinical development, the response of the patients' cancers to treatment will also be measured to evaluate the preliminary efficacy of SRA737.

The second trial is designed to explore the potentiating effects of low-dose gemcitabine (a chemotherapy that causes replication stress and DNA damage) in combination with SRA737, also in patients with genetically profiled cancers. The chemotherapy combination study is initially enrolling patients with the aim to establish the safety profile, to determine the MTD and to propose a recommended dose for further development of SRA737 in combination with low-dose gemcitabine. Once an MTD and dosing schedule have been determined, the study will evaluate the preliminary efficacy of SRA737 in combination with low-dose gemcitabine in genetically defined subjects with bladder or pancreatic cancer.

Sierra Oncology has announced that it will provide an update on the SRA737 development programme in late February 2018. Sierra Oncology also expects to present data from its studies at a medical conference in the second half of 2018.

In addition, Sierra Oncology is evaluating SRA737, with potential clinical opportunities in 2018, in combination with targeted cancer therapeutics where there is a strong biological rationale for synergy with Chk1 inhibition. These include anti-PD-1 and PD-L1 therapies, which are fast becoming established as key therapeutic options for a range of cancers, and other DDR inhibitors such as PARP inhibitors.

Sierra Oncology reported, in May 2017, the grant of US and EU patents, extending the protection of SRA737 in these important markets to 2033.

Tyrosine kinase 2 (TYK2)

With Sierra Oncology now funding the development of SRA737, Sareum has increased the resources allocated to developing its TYK2 programmes in autoimmune diseases and cancer.

TYK2 is a member of the Janus kinase (JAK) family of kinases with roles in pro-inflammatory responses in autoimmune diseases and tumour cell proliferation in certain cancers. Members of the JAK family are the targets of several marketed and clinical-stage drugs for cancer and autoimmune diseases, although there are currently no marketed products specifically targeting TYK2.

Sareum is developing potent and selective, orally available TYK2 inhibitors with potential best-in-class profiles that have shown initial proof of concept in *in vivo* models of:

- Psoriasis, rheumatoid arthritis and ulcerative colitis; and
- T-cell Acute Lymphoblastic Leukaemia (T-ALL).

Sareum has an ongoing co-development agreement with SRI International (Menlo Park, CA, USA) to develop TYK2 inhibitors in autoimmune diseases and retains commercialisation rights for these and other TYK2 inhibitors with profiles optimised for oncology and immuno-oncology applications.

Targeting autoimmune and inflammatory disorders

Sareum has conducted preclinical studies with several of its TYK2 inhibitors, which have demonstrated promising and potentially superior therapeutic profiles in disease models of psoriasis, rheumatoid arthritis and ulcerative colitis, compared with a marketed JAK family kinase inhibitor in the latter two cases.

These data have led the Company's partner, SRI International, to investigate advanced lead molecules in disease models of lupus, and promising initial efficacy has been observed. These studies are supported by a US government research grant (US Department of Defense) of US$360k.

New analogues, with improved selectivity and ADMET (ADME-Tox, absorption, distribution, metabolism and excretion) properties, continue to progress through internal screening cascades. Disease model studies with these compounds are planned during the fourth quarter of 2017. If these disease model studies are successful, the Company expects to move into the candidate selection phase in the first half of 2018.

Targeting cancers

Initial studies, assisted by funding from the Innovate UK Biomedical Catalyst Fund, to investigate the potential of Sareum's lead TYK2 inhibitors to treat T-ALL have concluded successfully. The study demonstrated good efficacy of several Sareum TYK2 inhibitors in disease models of T-ALL, both as a single agent and in combination with standard-of-care chemotherapy. In disease models, Sareum's compounds demonstrate good oral bioavailability, were well tolerated, presented good exposure to plasma and tumour tissue, and showed a dose-dependent effect on a biomarker of TYK2 inhibition and tumour reduction of up to 80%.

These data were presented by Sareum in November 2016 at the American Association for Cancer Research – National Cancer Institute – European Organisation for Research and Treatment of Cancer (AACR-NCI-EORTC) international conference and updated results were presented by the Company at the International Cancer Cluster Showcase in June 2017.

The Company is also investigating the potential of its TYK2 inhibitors in solid tumours and blood cancers where there is strong evidence in the literature that TYK2 inhibition could be effective, both as a single agent and in combination with standard-of-care chemotherapy. Several of these studies are being carried out in leading academic centres worldwide under material transfer agreements.

Furthermore, Sareum is investigating the potential of its TYK2 inhibitors to overcome tumour resistance to new immune checkpoint inhibitor therapies. Initial results are promising, and additional experiments are in progress seeking to identify which tumour types and immune checkpoint inhibitor combinations might be expected to benefit most from TYK2 inhibition.

The Company expects to select a candidate for further development in the oncology field in the first half of 2018, pending the success of ongoing studies in any one of these cancer applications.

Aurora+FLT3 kinases

Targeting AML and other blood cancers

Sareum's third programme is focused on small molecule inhibitors of Aurora and FLT3 kinases that it has identified as having potential to be single agent therapies for acute myeloid leukaemia (AML) and other leukaemias. A lead candidate is in preclinical development, funded by Sareum's Chinese partner, HMUBEC.

Previous studies have confirmed the potential of this candidate in AML, and particularly FLT3-mutant AML. Toxicology studies are underway, with initial results suggesting that the candidate is well tolerated at the predicted therapeutic dose. Further formulation work, which is causing additional delays, is ongoing to complete the toxicology studies, with Sareum funding some studies in the UK to accelerate the resolution of these formulation issues.

The Company is now targeting completion of the preclinical studies in the second half of 2018.

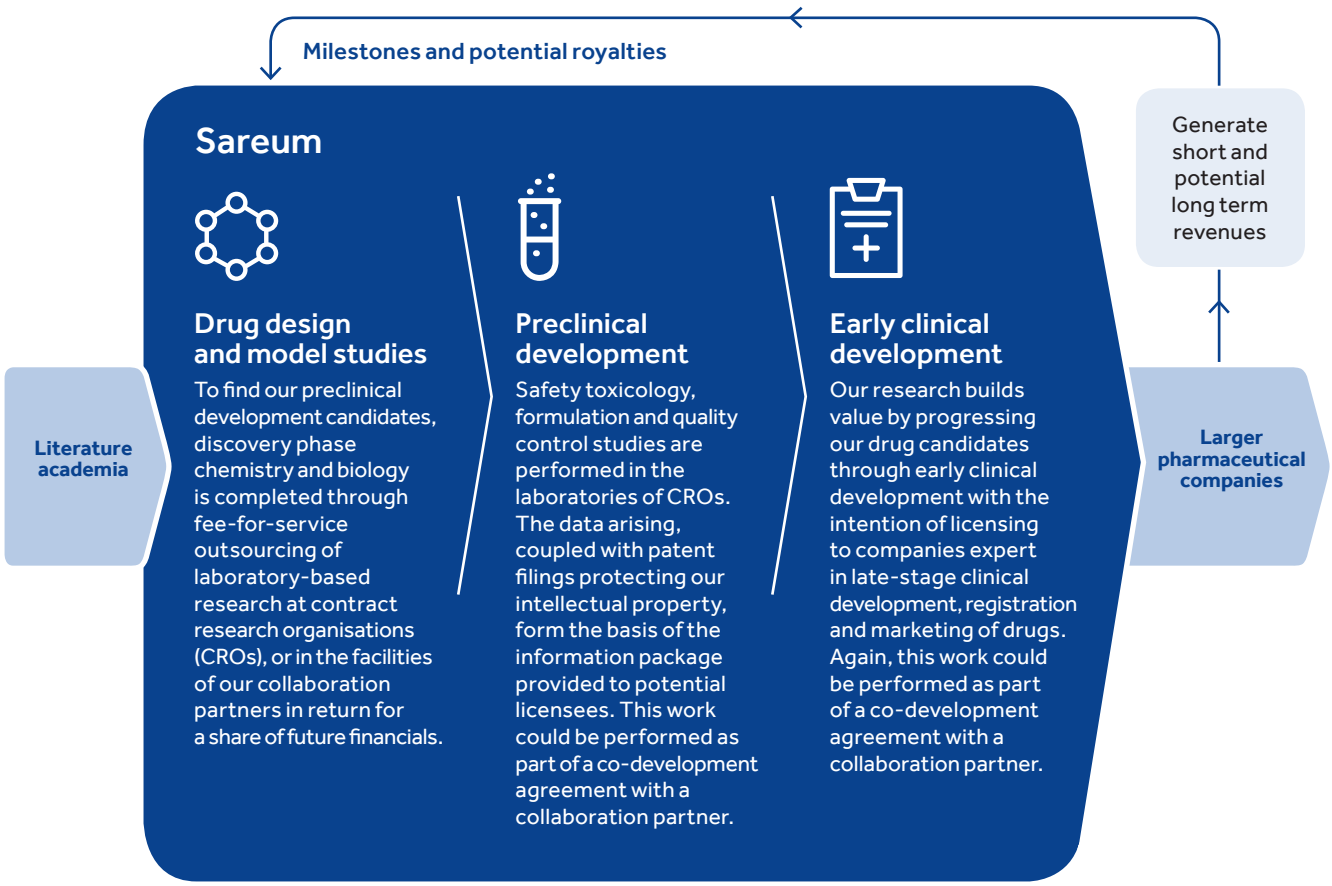
Separately during the period, the Company's intellectual property around its Aurora+FLT3 kinase programme was strengthened by notifications of patents granted in China, Hong Kong, Singapore and Japan. Sareum now has patent protection in all the major territories for this programme.

Overall, we are delighted with the progress made across our business and pipeline and look forward to further important newsflow in the coming year.

Dr Tim Mitchell
Chief Executive Officer
18 October 2017

Business Model

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



Our key strengths

Co-development collaborations

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

Outsourced research model

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

Drug development expertise

Sareum generates value by developing a strong pipeline of candidate drugs. To date this has been done through its drug discovery platform, SKIL® (Sareum Kinase Inhibitor Library), where new compounds targeting cancer and autoimmune diseases are identified.

Our Strategy

Sareum's strategy is to develop programmes to late preclinical or early clinical stages to take advantage of the higher asset values associated with licensing programmes at these stages.

Approach	Benefit
Pursue multiple programmes	• Increase potential success rate • Mitigate development risk
Seek collaboration partners	• Spread financial cost and risk • Access specialist research and development expertise
Develop programmes to preclinical/ early clinical development	• Minimise ongoing development risk • Move up value chain • Potential for higher deal values
License drug candidates to pharmaceutical company partners	• Generate short and potential long term revenues through upfront and milestone payments and royalties • Validate research and define value of assets • Progress drug candidates through clinical development and commercialisation

Key Performance Indicators (KPIs)

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

Research and development

£1.0 million

2017	**£1.0 million**
2016	£0.93 million
2015	£0.89 million

Sareum undertakes research and development on its cancer and autoimmune disease programmes. The investment in R&D in 2017 showed a modest increase over the prior year, in line with management expectations.

Profit/(loss) on ordinary activities

£0.40 million

2017	**£0.40 million**
2016	£(1.05) million
2015	£(1.26) million

The Company's management aims to minimise Group overheads through a low cost base and a lean operating model. This year, the Group reported a maiden profit following successful licensing of the Chk1 project to Sierra Oncology by our co-development partner, the CRT Pioneer Fund.

Cash at bank

£2.30 million

2017	**£2.30 million**
2016	£1.25 million
2015	£1.48 million

Sareum requires cash for working capital purposes and to advance its development programmes. The Company's low cost base ensures that funds are used in the most efficient way possible. The increase in cash is primarily the result of the upfront and first milestone payments received and the return of unspent co-investment funds following licensing of the Chk1 programme.

Principal Risks

Risk	Description	Mitigation	Risk change
Financial	The principal financial risks are the ability to raise sufficient funds to support the Company through to profitability and failure to secure licensing agreements.	The Company's low cost base ensures that funds are used in the most efficient way. Sareum has historically raised the majority of its funds from investors via licensed brokers and this continues to be an option. The Chk1 licence deal demonstrates the ability for licence deals to be achieved.	Decreased risk
Research and development	There are a number of risks in developing drug candidates due to a long and complex development process. Any programme must undergo extensive research to get to preclinical or clinical stage. This process takes several years and is very costly. R&D programmes can fail at any point.	We undertake extensive early research and create a dossier of information that enables us and our advisers to evaluate the potential of a candidate before we seek to progress to preclinical or clinical phases. We also seek collaboration partners whose own due diligence reaffirms our assessment of a candidate's potential.	No change
Intellectual property	Our ability to stop others exploiting our intellectual property, without first obtaining a licence, is critical to our long term success. Therefore, we file patent applications in the patent offices of the major commercial territories. To obtain patent protection, our inventions must be considered novel, inventive and useful. However, some, or all, of the patent offices may reject or seek to modify our patent applications.	Intellectual property protection is fundamental to our strategy of developing novel drug candidates and underpins our R&D programmes and we invest appropriately in this area. We are exploiting our SKIL platform, which already has a strong patent position through a number of granted and pending applications. IP considerations form a crucial part of due diligence when we are assessing in-licensing opportunities.	Decreased risk
Collaboration	Working with third parties carries a risk of loss of control on progress and can lead to research delays. This can increase Sareum's own financial commitment as a result of continued spend on fixed costs during a delay and potential additional financial contributions required in order to progress a programme.	We work closely with our partners to anticipate and plan around any likely delays. Collaboration contracts clearly outline responsibilities and key milestones as well as cost, licensing and revenue sharing.	No change
Competition	There always remains the possibility that a similar drug is being developed by a competitor that demonstrates greater efficacy or a better safety profile. Alternatively, a similar drug in development may conclude a licensing deal or reach a later stage of development before we are able to, thus reducing the likelihood of Sareum securing a licensing agreement.	The management and advisory boards gather as much information as possible on competitive products and programmes. Progress and key milestones are monitored to understand how these may affect our own programmes. Sareum also pursues more than one development programme in order to mitigate the overall risk to the Company.	Increased risk

Directors and Company Information

Stephen Parker DPhil
Non-executive Chairman

Dr Stephen Parker, aged 59, has a career in the healthcare and pharma sector that spans over 30 years, including six years in the City in advisory roles. He has sector corporate finance experience having been an investment banker focusing on pharma and biotechnology with Barings, Warburg and Apax Partners and has previously held roles as a partner at Celtic Pharma and Chief Financial Officer of Oxford GlycoSciences. Stephen also currently holds the position of Chairman at Liverpool ChiroChem and is a Non-executive Director at Silence Therapeutics plc.

Tim Mitchell PhD
Founder and CEO

Dr Tim Mitchell, aged 57, has over 25 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry Ltd and his roles at Millennium Pharmaceuticals Research and Development Ltd as a member of the management team and in forming the integrated Structure-Based Discovery department. As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of protein structure and high throughput chemical synthesis for Millennium as well as for local computational chemistry, informatics and automation capabilities. Prior to that, he was Director of Computational Chemistry at Cambridge Discovery Chemistry Ltd and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in computational chemistry and a BSc in chemistry.

John Reader PhD
Founder and CSO

Dr John Reader, aged 50, has over 20 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry Ltd in the provision of high throughput chemistry services to external and internal clients. John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug discovery process, with an excellent track record of delivering successful projects to clients and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in chemistry and a BSc in applied chemistry.

Directors:
T Mitchell PhD
J Reader PhD
S Parker DPhil

Secretary:
T Bunn FCMA

Registered office:
Unit 2a, Langford Arch
London Road
Pampisford
Cambridge
Cambridgeshire
CB22 3FX

Registered number:
05147578 (England and Wales)

Auditor:
Shipleys LLP
Chartered Accountants
and Registered Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

Group Strategic Report

for the Year Ended 30 June 2017

The Directors present the Strategic report of the Company and the Group for the year ended 30 June 2017.

Principal activities

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

Review of business

The profit for the year was £400,343 and at 30 June 2017 cash and cash equivalents amounted to £2,305,509.

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

On 27 September 2016 the Group announced that its co-investment partner, the CRT Pioneer Fund, had licensed the rights to the Chk1 project to Sierra Oncology, Inc.(previously named ProNAi Therapeutics, Inc.) Under the terms of the agreement, an immediate upfront payment of US$7.0 million was received by the co-investment partner and an additional fee of US$2.0 million was received following the successful transfer of the two ongoing Phase 1 clinical trials to Sierra. Additional payments of up to US$319.5 million may become payable upon achievement of certain milestones and Sierra will pay royalties on the net sales of any product successfully developed. Sareum is entitled to receive 27.5% of these payments and has also received a refund amounting to £228,976 in respect of unspent investment funds.

Principal risks and uncertainties

The principal risks facing the Group are the following:

- the drug discovery programmes undertaken may fail due to fundamental scientific uncertainty;
- the Group may not complete sufficient commercial partnerships to create a sustainable business; and
- it may not be possible to raise sufficient funding to support the Company through to sustained profitability.

The Directors acknowledge that there is uncertainty concerning the outcome of the UK's negotiations to exit the EU but do not currently consider that this represents a significant risk to the Group's prospects.

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

Key performance indicators

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

Future outlook

The Group will continue to develop its oncology programmes and, in particular, the Aurora+FLT3 project will be advanced through preclinical development into Phase 1 clinical trials. The TYK2 inhibitor, targeting autoimmune diseases, will also be progressed in conjunction with SRI International and the use of the Company's TYK2 inhibitors as cancer therapeutics will be developed. Commercially, significant licensing deals will be sought to realise the high value inherent in the Company's technology.

On behalf of the Board:

T Bunn FCMA
Secretary
18 October 2017

Report of the Directors

for the Year Ended 30 June 2017

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2017.

Directors

The Directors shown below have held office during the whole of the period from 1 July 2016 to the date of this report:

T Mitchell PhD

J Reader PhD

S Parker DPhil

Dividends

No dividends will be distributed for the year ended 30 June 2017.

Research and development

The Group undertakes research and development on its cancer research programmes. The costs relating to this, which have been written off during the year, amounted to £1,002,342 (2016: £927,644).

Financial instruments

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

Statement of Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions, disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Statement as to disclosure of information to auditor

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

On behalf of the Board:

T Bunn FCMA
Secretary
18 October 2017

Corporate Governance Report

Introduction
Sareum Holdings plc was listed on AIM on 11 October 2004. Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance (the Code), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given the resources available to the Company. Details are provided below of how the Company applies the Code.

The Board
The Board of Directors comprises two Executive Directors and one independent Non-executive Director, the Chairman.

The Board generally meets monthly and receives reports covering finance, compliance, business development, safety, operations and science together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility to review and approve the Group's strategy, budgets, staff recruitment, major items of expenditure and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the Directors retire by rotation at every AGM and are eligible for re-appointment.

Board Committees
The Board has established an Audit Committee and a Remuneration Committee with written terms of delegated responsibilities. The terms of reference are as close to the model terms of the Institute of Chartered Secretaries and Administrators as is possible for a Board with one independent Non-executive Director. The terms of reference of the Committees are published on the Company's website: www.sareum.com.

Audit Committee
The Audit Committee currently comprises Dr Stephen Parker, Non-executive Chairman, and Dr Tim Mitchell, CEO. It is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements covering the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group.

Remuneration Committee
The Remuneration Committee currently comprises Dr Stephen Parker, Non-executive Chairman. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual Directors. The Committee also ensures that recommendations made by the Executive Directors on staff remuneration are appropriate and fair from a shareholder's perspective. Further information on the work of the Committee can be found on page 15.

Shareholder relations
The Company meets with its institutional shareholders and analysts as appropriate and uses the AGM to encourage communication with shareholders. In addition, the Company issues the Annual Report and Accounts, Interim Statement and press releases as well as using its website (www.sareum.com) to provide further information to shareholders.

Internal control and risk management
The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee reviews the effectiveness of these systems annually. This it does primarily by discussions with the external auditor and by considering the risks potentially affecting the Group.

The Group does not have an internal audit function since the administrative function is very small. Instead there is a detailed Director review and authorisation of transactions. The annual audit by the Group's auditor, which tests a sample of transactions, did not highlight any significant system improvements in order to reduce risks.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, compared with the budget, are reported to the Board on a monthly basis and discussed in detail.

The Group maintains appropriate insurance cover in respect of actions taken against the Executive Directors because of their roles, as well as against material loss or claims against the Group. The insured values and types of cover are comprehensively reviewed on a periodic basis.

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

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

Employees
Sareum is committed to a policy of equal opportunities in the recruitment, engagement and treatment of its staff.

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

Remuneration Committee Report

Introduction

The Company recognises the value of the Combined Code on Corporate Governance issued by the London Stock Exchange. It seeks to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature. The Company also seeks to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004. Companies trading on AIM are not required to provide a formal remuneration report. However, in line with current best practice, this report provides information to enable a greater level of understanding as to how remuneration is determined by the Board.

The Remuneration Committee of the Board is responsible for considering staff and Directors' remuneration packages and makes its recommendations to the Board. The Committee currently comprises Dr Stephen Parker, Non-executive Chairman. It meets at least once a year to review salaries and share option schemes for the Directors.

Remuneration policy

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

Executive Directors' service contracts

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

For the year from 1 July 2016 a Directors' bonus scheme was, in effect, to reward the Directors based on performance targets that build shareholder value.

Pensions

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

Share option schemes

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

- an Inland Revenue approved (EMI) share option scheme (approved scheme); and
- an unapproved share option scheme (unapproved scheme), identical to the approved scheme but for part-time staff who do not fulfil the EMI employment criteria.

Non-executive Directors

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

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

Director	Share scheme	Exercise price pence	As at 1 July 2016 No.	Granted during the year No.	Lapsed during the year	**As at 30 June 2017 No.**
Dr Tim Mitchell	EMI	0.25	6,400,000	—	—	**6,400,000**
Dr Tim Mitchell	EMI	0.26	6,153,846	—	—	**6,153,846**
Dr Tim Mitchell	EMI	1.2	2,566,666	—	—	**2,566,666**
Dr Tim Mitchell	EMI	0.6	4,752,000	—	—	**4,752,000**
Dr Tim Mitchell	EMI	0.425	7,198,353	—	—	**7,198,353**
Dr Tim Mitchell	EMI	0.59	5,340,862	—	—	**5,340,862**
Dr Tim Mitchell	EMI	0.80	—	6,250,000	—	**6,250,000**
Dr Tim Mitchell	EMI	1.20	—	3,125,000	—	**3,125,000**
Dr Tim Mitchell	EMI	1.60	—	3,125,000	—	**3,125,000**
Dr John Reader	EMI	0.25	6,400,000	—	—	**6,400,000**
Dr John Reader	EMI	0.26	6,153,846	—	—	**6,153,846**
Dr John Reader	EMI	1.2	2,566,666	—	—	**2,566,666**
Dr John Reader	EMI	0.6	4,752,000	—	—	**4,752,000**
Dr John Reader	EMI	0.425	7,198,353	—	—	**7,198,353**
Dr John Reader	EMI	0.59	5,340,862	—	—	**5,340,862**
Dr John Reader	EMI	0.80	—	6,250,000	—	**6,250,000**
Dr John Reader	EMI	1.20	—	3,125,000	—	**3,125,000**
Dr John Reader	EMI	1.60	—	3,125,000	—	**3,125,000**
Dr Stephen Parker	Unapproved	0.80	—	5,000,000	—	**5,000,000**
Dr Stephen Parker	Unapproved	1.20	—	2,500,000	—	**2,500,000**
Dr Stephen Parker	Unapproved	1.60	—	2,500,000	—	**2,500,000**

The market price of the shares at 30 June 2017 was 0.85 pence and the range during the year was 0.60 pence to 1.475 pence.

Remuneration Committee Report continued

Directors' remuneration

Details of Directors' remuneration for the year to 30 June 2017 are set out below:

	Salary £	Bonus £	Healthcare £	Emoluments £	Pension £	**Total 2017 £**	Total 2016 £
Executive Directors							
Dr TJ Mitchell	135,673	34,000	1,349	171,022	10,775	**181,797**	112,617
Dr JC Reader	135,673	50,000	918	186,591	11,397	**197,988**	112,970
Non-executive Directors							
Dr PB Harper	46,500	—	—	46,500	—	**46,500**	4,479
Dr SB Parker	—	—	—	—	—	**—**	25,741
Total	317,846	84,000	2,267	404,113	22,172	**426,285**	255,807

Report of the Independent Auditor

to the Members of Sareum Holdings plc

Opinion

We have audited the financial statements of Sareum Holdings plc (the Parent Company) and its subsidiaries (the Group) for the year ended 30 June 2017, which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statements and related notes including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Management override of controls	
Journals can be posted that significantly alter the financial statements.	We examined journals posted around the year end, specifically focusing on areas which are more easily manipulated such as accruals, prepayments, bank reconciliations and tax.
Going concern	
There is a risk that the Company may hold insufficient cash to allow it to meet its financial obligations as they fall due, thus giving rise to a going concern risk.	Existing cash reserves have been evidenced and future cash flow forecasts have been reviewed to ensure sufficient cash headroom exists for a period extending beyond one year from the date of approving these financial statements.
Fraud in revenue recognition	
There is a risk that revenue is materially understated due to fraud.	Income was tested in full from third-party sources and we concluded that no evidence of fraud or other understatement was identified.
Accounting estimates	
Potential risk of inappropriate accounting estimates giving rise to misstatement in the accounts.	Accruals were agreed to expected costs and supporting documentation, and other areas were examined to identify any potential accounting estimates.
Risk of material misstatement within related party transactions	
There is the risk that related party transactions are potentially incomplete or materially misstated.	Correspondence, including Board minutes and accounting records were reviewed for evidence of material related party transactions and it is considered that all relevant items have been disclosed.

Report of the Independent Auditor continued

to the Members of Sareum Holdings plc

Our assessment of risks of material misstatement continued

Risk	How the scope of our audit responded to the risk
Disclosures	
There is a risk of incorrect or incomplete disclosures in the financial statements.	The financial statements have been reviewed and checks have been undertaken to ensure all material disclosure requirements have been met.

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

Our application of materiality

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

We determine materiality for the Group to be £45,372 and this financial benchmark, which has been used throughout the audit, was determined by way of a standard formula being applied to key financial results and balances presented in the Financial Statements. Where considered relevant, the materiality is adjusted to suit the specific area risk profile of the Group.

Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Opinion on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Report of the Directors.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibilities for the audit of the financial statements

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

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

Stewart Jell (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ
18 October 2017

Consolidated Statement of Comprehensive Income

for the Year Ended 30 June 2017

	Notes	2017 £	2016 £
Continuing operations			
Revenue		**—**	—
Other operating income		**19,996**	122,599
Administrative expenses		**(1,445,792)**	(995,770)
Share of profit/(loss) of associates		**1,775,725**	(331,871)
Operating profit/(loss)		**349,929**	(1,205,042)
Finance income	5	**2,991**	4,359
Profit/(loss) before income tax	6	**352,920**	(1,200,683)
Income tax	7	**47,423**	152,565
Profit/(loss) for the year		**400,343**	(1,048,118)
Total comprehensive income for the year		**400,343**	(1,048,118)
Profit/(loss) attributable to:			
Owners of the parent		**400,343**	(1,048,118)
Total comprehensive income attributable to:			
Owners of the parent		**400,343**	(1,048,118)
Earnings per share expressed in pence per share:	9		
Basic		**0.015p**	(0.04)p
Diluted		**0.015p**	—

The notes form part of these financial statements.

Consolidated Balance Sheet

as at 30 June 2017

	Notes	2017 £	2016 £
Assets			
Non-current assets			
Property, plant and equipment	10	**13,333**	1,322
Investment in associates	11	**53,639**	475,038
		66,972	476,360
Current assets			
Trade and other receivables	12	**80,434**	79,288
Tax receivable		**48,230**	154,840
Cash and cash equivalents	13	**2,305,509**	1,252,595
		2,434,173	1,486,723
Liabilities			
Current liabilities			
Trade and other payables	14	**155,534**	99,551
Net current assets		**2,278,639**	1,387,172
Net assets		**2,345,611**	1,863,532
Shareholders' equity			
Called up share capital	17	**661,305**	661,305
Share premium	18	**11,765,111**	11,765,111
Share-based compensation reserve	18	**191,945**	110,209
Merger reserve	18	**27**	27
Retained earnings	18	**(10,272,777)**	(10,673,120)
Total equity		**2,345,611**	1,863,532

The financial statements were approved by the Board of Directors on 18 October 2017 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Company Balance Sheet

as at 30 June 2017

	Notes	2017 £	2016 £
Assets			
Non-current assets			
Investments	11	**30,000**	30,000
Current assets			
Trade and other receivables	12	**—**	—
Liabilities			
Current liabilities		**—**	—
Net assets		**30,000**	30,000
Shareholders' equity			
Called up share capital	17	**661,305**	661,305
Share premium	18	**11,765,111**	11,765,111
Share-based compensation reserve	18	**191,945**	110,209
Retained earnings	18	**(12,588,361)**	(12,506,625)
Total equity		**30,000**	30,000

The financial statements were approved by the Board of Directors on 18 October 2017 and were signed on its behalf by:

T Mitchell PhD
Director

The notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2017

	Called up share capital £	Retained earnings £	Share premium £
Balance at 1 July 2015	621,859	(9,625,002)	10,761,261
Changes in equity			
Issue of share capital	39,446	—	1,003,850
Total comprehensive expense	—	(1,048,118)	—
Share-based compensation	—	—	—
Balance at 30 June 2016	661,305	(10,673,120)	11,765,111
Changes in equity			
Total comprehensive income	—	400,343	—
Share-based compensation	—	—	—
Balance at 30 June 2017	**661,305**	**(10,272,777)**	**11,765,111**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2015	105,014	27	1,863,159
Changes in equity			
Issue of share capital	—	—	1,043,296
Total comprehensive expense	—	—	(1,048,118)
Share-based compensation	5,195	—	5,195
Balance at 30 June 2016	110,209	27	1,863,532
Changes in equity			
Total comprehensive income	—	—	400,343
Share-based compensation	81,736	—	81,736
Balance at 30 June 2017	**191,945**	**27**	**2,345,611**

Company Statement of Changes in Equity

for the Year Ended 30 June 2017

	Called up share capital £	Retained earnings £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2015	621,859	(11,458,134)	10,761,261	105,014	30,000
Changes in equity					
Issue of share capital	39,446	—	1,003,850	—	1,043,296
Total comprehensive expense	—	(1,048,491)	—	—	(1,048,491)
Share-based compensation	—	—	—	5,195	5,195
Balance at 30 June 2016	661,305	(12,506,625)	11,765,111	110,209	30,000
Changes in equity					
Total comprehensive expense	—	(81,736)	—	—	(81,736)
Share-based compensation	—	—	—	81,736	81,736
Balance at 30 June 2017	**661,305**	**(12,588,361)**	**11,765,111**	**191,945**	**30,000**

The notes form part of these financial statements.

Consolidated Cash Flow Statement

for the Year Ended 30 June 2017

	Notes	2017 £	2016 £
Cash flows from operating activities			
Cash generated from operations	24	**689,837**	(862,024)
Tax received		**154,033**	184,022
Net cash inflow/(outflow) from operating activities		**843,870**	(678,002)
Cash flows from investing activities			
Purchase of tangible fixed assets		**(16,000)**	—
Purchase of fixed asset investments		**—**	(597,102)
Repayment of investment funds		**228,977**	—
Interest received		**2,991**	4,359
Net cash inflow/(outflow) from investing activities		**215,968**	(592,743)
Cash flows from financing activities			
Loan to Director		**(6,924)**	—
Share issue		**—**	39,446
Share premium on share issue		**—**	1,003,850
Net cash (outflow)/inflow from financing activities		**(6,924)**	1,043,296
Increase/(decrease) in cash and cash equivalents		**1,052,914**	(227,449)
Cash and cash equivalents at beginning of year	25	**1,252,595**	1,480,044
Cash and cash equivalents at end of year	25	**2,305,509**	1,252,595

Company Cash Flow Statement

for the Year Ended 30 June 2017

	Notes	2017 £	2016 £
Cash flows from operating activities			
Cash generated from operations	24	**—**	(1,043,296)
Net cash outflow from operating activities		**—**	(1,043,296)
Cash flows from financing activities			
Share issue		**—**	39,446
Share premium on share issue		**—**	1,003,850
Net cash inflow from financing activities		**—**	1,043,296
Increase in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year	25	**—**	—
Cash and cash equivalents at end of year	25	**—**	—

The notes form part of these financial statements.

Notes to the Consolidated Financial Statements

for the Year Ended 30 June 2017

1. Basis of preparation

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

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

Going concern

The Directors estimate that the cash held by the Group will be sufficient to support the current level of activities for the foreseeable future. Therefore the financial statements have been prepared on a going concern basis.

Basis of consolidation

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

2. Statutory information

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

3. Accounting policies

The principal accounting policies applied are set out below.

Property, plant and equipment

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

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

Financial instruments

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

Cash and cash equivalents

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

Taxation

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

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

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

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

Research and development

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

Operating lease agreements

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

Pension contributions

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

3. Accounting policies continued

Employee share scheme

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

Revenue recognition

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

Investment in Associates

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

Critical accounting estimates and areas of judgement

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

Accounting standards and interpretations not applied

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

Standard		Effective for accounting periods starting on or after
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses–Amendments to IAS 12	1 January 2017
IFRS 9	Financial Instruments	1 January 2017
IFRS 15	Revenue from Contracts with Customers	1 January 2017

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

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

4. Employees and Directors

	2017 £	2016 £
Wages and salaries	**405,656**	240,835
Social security costs	**44,232**	20,556
Other pension costs	**22,172**	16,625
	472,060	278,016

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

	2017	2016
Office and management	**1**	1
Research	**1**	1
	2	2

	2017 £	2016 £
Directors' remuneration	**404,113**	230,231
Directors' pension contributions to money purchase schemes	**22,172**	16,625
Compensation to Director for loss of office	**—**	8,952

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

	2017 £	2016 £
Money purchase schemes	**2**	2

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2017

4. Employees and Directors continued

Information regarding the highest paid Director is as follows:

	2017 £	2016 £
Emoluments, etc.	**186,591**	104,591
Pension contributions to money purchase schemes	**11,397**	8,027

The Directors comprise the key management personnel of the Group.

5. Net finance income

	2017 £	2016 £
Finance income:		
Deposit account interest	**2,991**	4,359

6. Profit/loss before income tax

The profit before income tax (2016: loss before income tax) is stated after charging:

	2017 £	2016 £
Other operating leases	**11,210**	11,185
Depreciation – owned assets	**3,989**	1,765
Research and development	**1,002,342**	927,644
Auditor's remuneration – see analysis below	**13,915**	14,300

The share of profit/(loss) of associates is made up of:

	2017 £	2016 £
Share of income of associates	**1,968,147**	—
Share of costs of associates	**(192,422)**	(331,871)
Share of profit/(loss) of associates	**1,775,725**	(331,871)

The analysis of auditor's remuneration is as follows:

	2017 £	2016 £
Fees payable to the Company's auditor for the audit of the annual accounts:		
Audit of the Company	**4,500**	4,200
Audit of subsidiaries	**7,300**	6,800
Total audit fees	**11,800**	11,000
Fees payable to the Company's auditor for other services:		
Taxation services	**1,300**	1,300
Other assurance services	**815**	2,000
Total fees payable to the Company's auditor	**13,915**	14,300

7. Income tax

	2017 £	2016 £
Current tax:		
UK corporation tax credit on profits/losses of the period	**(47,423)**	(151,526)
Adjustments recognised in the current year in relation to the current tax of prior years	**—**	(1,039)
Tax credit to the Income Statement	**(47,423)**	(152,565)

7. Income tax continued

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

	2017 £	2016 £
Profit/(loss) before tax	**352,923**	(1,200,684)
At average rate of 19.75% (2016: 20%)	**69,702**	(240,137)
Effects of:		
Capital allowances (less)/more than depreciation	**(161)**	12
Other timing differences	**435**	—
Unutilised tax losses	**45,445**	149,255
Losses surrendered for research and development tax credits (less uplift)	**(115,421)**	90,870
Research and development tax credits claimed	**(47,423)**	(151,526)
Prior year adjustments	**—**	(1,039)
Actual current tax credit in the year	**(47,423)**	(152,565)

The tax rate of 19.75% used above for the 2017 reconciliation and 20% used for the 2016 reconciliation is the average corporation tax rate applicable in the United Kingdom.

8. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £81,736 (2016: £1,048,491).

The loss represents costs of £148,365 (2016: £128,244) associated with the Company's obligations to maintain its AIM listing and the share-based compensation adjustment of £81,736 (2016: £5,195) offset by a reduction in provision of £148,365 (2016: increased provision £915,052) for impairment of amounts owed by Group undertakings.

9. Earnings/(loss) per share

The calculation of profit/(loss) per share is based on the following data:

Basic profit/(loss) per share:

	2017	2016
Profit/(loss) on ordinary activities after tax	**£400,343**	£(1,048,118)
Weighted average number of shares	**2,645,223,988**	2,524,944,713
Basic profit/(loss) per share	**0.015p**	(0.04)p

Diluted profit per share:

	2017
Profit on ordinary activities after tax	**£400,345**
Weighted average number of shares and share options	**2,741,309,965**
Basic profit per share	**0.015p**

As the Group generated a loss for the year to 30 June 2016, there was no dilutive effect in respect of share options.

10. Property, plant and equipment

Group	Motor vehicles £	Fixtures and computers £	Total £
Cost			
At 1 July 2016	—	9,894	9,894
Additions	16,000	—	16,000
At 30 June 2017	**16,000**	**9,894**	**25,894**
Depreciation			
At 1 July 2016	—	8,572	8,572
Charge for year	2,667	1,322	3,989
At 30 June 2017	**2,667**	**9,894**	**12,561**
Net book value			
At 30 June 2017	**13,333**	**—**	**13,333**
At 30 June 2016	—	1,322	1,322

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2017

11. Investments in associates

Group	Interest in associates £
Cost	
At 1 July 2016	1,367,101
Less: Refund of unused investment funds	(228,977)
At 30 June 2017	**1,138,124**
Impairment	
At 1 July 2016	892,063
Impairment for year	192,422
At 30 June 2017	**1,084,485**
Net book value	
At 30 June 2017	**53,639**
At 30 June 2016	475,038

The Investment in Associates represents the investment by the Group in the partnership with the Cancer Research Technology Pioneer Fund to advance the Chk1 programme. The associate has been accounted for using the equity method in the consolidated financial statements. Sareum's interest in the associate partnership is 27.5% and it had a seat on the joint research committee. As at 30 June 2017 the partnership had net assets of £200,464 (2016: £1,731,051) and had incurred cumulative losses of £472,756 (2016: £4,068,949). During the year the programme was licensed by the partnership to Sierra Oncology, Inc. and the partnership returned £228,977 to Sareum in respect of unused investment funds.

Company	Shares in Group undertakings £
Cost	
At 1 July 2016 and 30 June 2017	**30,000**
Net book value	
At 30 June 2017	**30,000**
At 30 June 2016	30,000

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

12. Trade and other receivables

	Group	
	2017 £	2016 £
Current:		
Directors' loan accounts	**6,924**	—
VAT	**16,513**	15,159
Prepayments and accrued income	**56,997**	64,129
	80,434	79,288

	Company	
	2017 £	2016 £
Non-current:		
Amounts owed by Group undertakings	**10,821,308**	10,969,673
Provision for impairment	**(10,821,308)**	(10,969,673)
	—	—

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

13. Cash and cash equivalents

	Group	
	2017 £	2016 £
Bank deposit account	**2,296,439**	1,245,707
Bank accounts	**9,070**	6,888
	2,305,509	1,252,595

14. Trade and other payables

	Group	
	2017 £	2016 £
Current:		
Trade creditors	**118,370**	72,180
Social security and other taxes	**13,722**	8,519
Other creditors	**5,714**	3,512
Accrued expenses	**17,728**	15,340
	155,534	99,551

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

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

15. Leasing agreements

Minimum lease payments fall due as follows:

	Non-cancellable operating leases	
Group	**2017 £**	2016 £
Within one year	**5,550**	11,100
Between one and five years	**—**	5,550
	5,550	16,650

The outstanding commitments represent rental payments due under the lease for the Group's office premises which expires in December 2017. The lease does not include any onerous restriction of the Group's activities.

Company

The Company had no lease commitments at 30 June 2017.

16. Financial instruments

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

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

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

Market risks

INTEREST RATE RISK

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

FOREIGN EXCHANGE RISK

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

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

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

Non-market risks

LIQUIDITY RISK

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

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2017

17. Called up share capital

Allotted, issued and fully paid:

Number	Class	Nominal value	2017 £	2016 £
2,645,223,988 (2016: 2,645,223,988)	Ordinary shares	0.025p	**661,305**	661,305

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

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

18. Reserves

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

Details of movements in each reserve are set out in the Consolidated Statement of Changes in Equity.

19. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £22,172 (2016: £16,625) are charged to the profit and loss account. At the balance sheet date contributions of £5,708 (2016: £3,507) were owed and are included in creditors.

20. Contingent liabilities

There are no contingent liabilities (2016: £nil).

21. Related party disclosures

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

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

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

22. Reconciliation of movements in shareholders' funds

	Group	
	2017 £	2016 £
Profit/(loss) for the financial year	**400,343**	(1,048,118)
Issue of share capital	**—**	1,043,296
Share-based compensation reserve	**81,736**	5,195
Net addition to shareholders' funds	**482,079**	373
Opening shareholders' funds	**1,863,532**	1,863,159
Closing shareholders' funds	**2,345,611**	1,863,532

	Company	
	2017 £	2016 £
Loss for the financial year	**(81,736)**	(1,048,491)
Issue of share capital	**—**	1,043,296
Share-based compensation reserve	**81,736**	5,195
Opening shareholders' funds	**30,000**	30,000
Closing shareholders' funds	**30,000**	30,000

23. Share-based payment transactions

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

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

	2017		2016	
	Number of share options	**Weighted average exercise price pence**	Number of share options	Weighted average exercise price pence
Outstanding at beginning of the period	**77,770,909**	**0.492**	66,178,789	0.474
Granted during the period	**35,000,000**	**0.909**	11,592,120	0.59
Forfeited during the period	**—**	**—**	—	—
Exercised during the period	**—**	**—**	—	—
Expired during the period	**—**	**—**	—	—
Outstanding at the end of the period	**112,770,909**	**0.680**	77,770,909	0.492
Exercisable at the end of the period	**89,824,044**	**0.706**	54,824,044	0.455

The options outstanding at 30 June 2017 had a weighted average remaining contractual life of six years and nine months (30 June 2016: six years and six months). The options outstanding but not exercisable at 30 June 2017 and 30 June 2016 vest subject to predetermined performance criteria.

Fair value calculation

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

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

* The share options that were granted in December 2016 were issued with exercise prices of 0.8 pence, 1.2 pence and 1.8 pence.

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

The weighted average fair value of the share options at 30 June 2017 was 0.184 pence per share (2016: 0.184 pence per share). A fair value charge of £81,736 has been provided in the year (2016: £5,195).

24. Reconciliation of profit/(loss) before income tax to cash generated from operations

	Group	
	2017 £	2016 £
Profit/(loss) before income tax	**352,920**	(1,200,683)
Depreciation charges	**3,989**	1,765
Share-based compensation	**81,736**	5,195
Share of costs of associates	**192,422**	331,871
Finance income	**(2,991)**	(4,359)
	628,076	(866,211)
Decrease/(increase) in trade and other receivables	**5,778**	(27,922)
Increase in trade and other payables	**55,983**	32,109
Cash generated from/(used in) operations	**689,837**	(862,024)

Notes to the Consolidated Financial Statements continued

for the Year Ended 30 June 2017

24. Reconciliation of profit/(loss) before income tax to cash generated from operations continued

	Company	
	2017 £	2016 £
Loss before income tax	**(81,736)**	(1,048,491)
Impairment provision	**(148,365)**	915,052
Share-based compensation	**81,736**	5,195
	(148,365)	(128,244)
Decrease/(increase) in trade and other receivables	**148,365**	(915,052)
Cash used in operations	**—**	(1,043,296)

25. Cash and cash equivalents

The amounts disclosed in the Cash Flow Statements in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

	Group		Company	
Year ended 30 June 2017	**30 June 2017 £**	1 July 2016 £	**30 June 2017 £**	1 July 2016 £
Cash and cash equivalents	**2,305,509**	1,252,595	**—**	—

	Group		Company	
Year ended 30 June 2016	30 June 2016 £	1 July 2015 £	30 June 2016 £	1 July 2015 £
Cash and cash equivalents	1,252,595	1,480,044	—	—

26. Capital risk management

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

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

27. Deferred tax

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

	2017 £	2016 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(1,454)**	(1,289)
Tax losses available	**(1,106,170)**	(1,273,099)
	(1,107,624)	(1,274,388)

A potential deferred tax asset of £1,107,624 has not been recognised, as there remains a significant degree of uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

Produced by
designportfolio

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